First Welfare Theorem *

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Abstract

Contents

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1 Introducing Syntax

Syntax, abbreviations and type-synonyms

theory *Syntax*
imports *Main*
begin

type-synonym $'a\ relation = ('a \times 'a)\ set$

abbreviation *gen-weak-stx* :: $'a \Rightarrow 'a\ relation \Rightarrow 'a \Rightarrow bool$
(- ⪰[-] - [*51*,*100*,*51*] *60*)
where
$x \succeq[P]\ y \equiv (x,\ y) \in P$

abbreviation *gen-indif-stx* :: $'a \Rightarrow 'a\ relation \Rightarrow 'a \Rightarrow bool$
(- ≈[-] - [*51*,*100*,*51*] *60*)
where
$x \approx[P]\ y \equiv x \succeq[P]\ y \wedge y \succeq[P]\ x$

abbreviation *gen-strc-stx* :: $'a \Rightarrow 'a$ *relation* $\Rightarrow 'a \Rightarrow$ *bool*
  $(- \succ[-]\ -\ [51,100,51]\ 60)$
  where
    $x \succ[P]\ y \equiv\ x \succeq[P]\ y \wedge \neg y \succeq[P]\ x$

end

2 Arg Min and Arg Max sets

theory *Argmax*
  imports
    Complex-Main
begin

2.1 Definitions and Lemmas by Julian Parsert

definition of argmax and argmin returing a set.

definition *arg-min-set* :: $('a \Rightarrow 'b{::}ord) \Rightarrow 'a\ set \Rightarrow 'a\ set$
  where
    arg-min-set f S $= \{x.$ *is-arg-min f* $(\lambda x.\ x{\in}S)\ x\}$

definition *arg-max-set* :: $('a \Rightarrow 'b{::}ord) \Rightarrow 'a\ set \Rightarrow 'a\ set$
  where
    arg-max-set f S $= \{x.$ *is-arg-max f* $(\lambda x.\ x{\in}S)\ x\}$

Useful lemmas for *arg-max-set* and *arg-min-set*.

lemma *no-better-in-s*:
  assumes $x \in$ *arg-max-set f S*
  shows $\nexists y.\ y \in S \wedge (f\ y) > (f\ x)$
  by (*metis arg-max-set-def assms is-arg-max-def mem-Collect-eq*)

lemma *argmax-sol-in-s*:
  assumes $x \in$ *arg-max-set f S*
  shows $x \in S$
  by (*metis CollectD arg-max-set-def assms is-arg-max-def*)

lemma *leq-all-in-sol*:
  fixes $f :: 'a \Rightarrow ('b :: preorder)$
  assumes $x \in$ *arg-max-set f S*
  shows $\forall y \in S.\ f\ y \geq f\ x \longrightarrow y \in$ *arg-max-set f S*
  using *assms le-less-trans* **by** (*auto simp*: *arg-max-set-def is-arg-max-def*)

lemma *all-leq*:
  fixes $f :: 'a \Rightarrow ('b :: linorder)$
  assumes $x \in$ *arg-max-set f S*
  shows $\forall y \in S.\ f\ x \geq f\ y$
  by (*meson assms leI no-better-in-s*)

lemma *all-in-argmax-equal*:
  fixes $f :: 'a \Rightarrow ('b :: linorder)$
  assumes $x \in$ *arg-max-set* f S
  shows $\forall y \in$ *arg-max-set* f S. $f\ x = f\ y$
    by (*meson all-leq argmax-sol-in-s assms le-less no-better-in-s*)

end

3 Preference Relations

Preferences modeled as a set of pairs

theory *Preferences*
  imports
    HOL−Analysis.Multivariate-Analysis
    Syntax
begin

3.1 Basic Preference Relation

Basic preference relation locale with carrier and relation modeled as a set of pairs.

locale *preference* =
  fixes *carrier* :: *'a set*
  fixes *relation* :: *'a relation*
  assumes *not-outside*: $(x,y) \in relation \Longrightarrow x \in carrier$
    and $(x,y) \in relation \Longrightarrow y \in carrier$
  assumes *trans-refl*: *preorder-on carrier relation*

context *preference*
begin

abbreviation *geq* (- $\succeq$ - [*51*,*51*] *60*)
  where
    $x \succeq y \equiv x \succeq[relation]\ y$

abbreviation *str-gr* (- $\succ$ - [*51*,*51*] *60*)
  where
    $x \succ y \equiv x \succeq y \land \neg y \succeq x$

abbreviation *indiff* (- $\approx$ - [*51*,*51*] *60*)
  where
    $x \approx y \equiv x \succeq y \land y \succeq x$

lemma *reflexivity*: *refl-on carrier relation*
  using *preorder-on-def trans-refl* **by** *blast*

lemma *transitivity*: *trans relation*
  using *preorder-on-def trans-refl* **by** *auto*

lemma *indiff-trans* [*simp*]: $x \approx y \Longrightarrow y \approx z \Longrightarrow x \approx z$
  by (*meson transE transitivity*)

end

3.1.1 Contour sets

definition *at-least-as-good* :: $'a \Rightarrow 'a$ *set* $\Rightarrow 'a$ *relation* $\Rightarrow 'a$ *set*
  where
    at-least-as-good x B $P = \{y \in B.\ y \succeq[P]\ x\ \}$

definition *no-better-than* :: $'a \Rightarrow 'a$ *set* $\Rightarrow 'a$ *relation* $\Rightarrow 'a$ *set*
  where
    no-better-than x B $P = \{y \in B.\ x \succeq[P]\ y\}$

definition *as-good-as* :: $'a \Rightarrow 'a$ *set* $\Rightarrow 'a$ *relation* $\Rightarrow 'a$ *set*
  where
    as-good-as x B $P = \{y \in B.\ x \approx[P]\ y\}$

lemma *at-lst-asgd-ge*:
  assumes $x \in$ *at-least-as-good* y B Pr
  shows $x \succeq[Pr]\ y$
  using *assms at-least-as-good-def* **by** *fastforce*

lemma *strict-contour-is-diff*:
  $\{a \in B.\ a \succ[Pr]\ y\}$ = *at-least-as-good* y B Pr − *as-good-as* y B Pr
  by(*auto simp add*: *at-least-as-good-def as-good-as-def*)

lemma *strict-countour-def* [*simp*]:
  (*at-least-as-good* y B Pr) − *as-good-as* y B $Pr = \{x \in B.\ x \succ[Pr]\ y\}$
  by (*simp add*: *as-good-as-def at-least-as-good-def strict-contour-is-diff*)

lemma *at-least-as-goodD* [*dest*]:
  assumes $z \in$ *at-least-as-good* y B Pr
  shows $z \succeq[Pr]\ y$
  using *assms at-least-as-good-def* **by** *fastforce*

3.2 Rational Preference Relation

Rational preferences add totality to the basic preferences.

locale *rational-preference* = *preference* +
  assumes *total*: *total-on carrier relation*
begin

lemma *compl*: $\forall x \in$ *carrier* . $\forall y \in$ *carrier* . $x \succeq y \lor y \succeq x$
  by (*metis refl-onD reflexivity total total-on-def*)

lemma *strict-not-refl-weak* [*iff*]: $x \in carrier \wedge y \in carrier \Longrightarrow \neg (y \succeq x) \longleftrightarrow x \succ y$
by (*metis refl-onD reflexivity total total-on-def*)

lemma *strict-trans* [*simp*]: $x \succ y \Longrightarrow y \succ z \Longrightarrow x \succ z$
by (*meson transE transitivity*)

lemma *completeD* [*dest*]: $x \in carrier \Longrightarrow y \in carrier \Longrightarrow x \neq y \Longrightarrow x \succeq y \vee y \succeq x$
by *blast*

lemma *pref-in-at-least-as*:
assumes $x \succeq y$
shows $x \in$ *at-least-as-good y carrier relation*
by (*metis* (*no-types*, *lifting*) *CollectI assms*
at-least-as-good-def preference.not-outside preference-axioms)

lemma *worse-in-no-better*:
assumes $x \succeq y$
shows $y \in$ *no-better-than y carrier relation*
by (*metis* (*no-types*, *lifting*) *CollectI assms no-better-than-def*
preference-axioms preference-def strict-not-refl-weak)

lemma *strict-is-neg-transitive* :
assumes $x \in carrier \wedge y \in carrier \wedge z \in carrier$
shows $x \succ y \Longrightarrow x \succ z \vee z \succ y$
by (*meson assms compl transE transitivity*)

lemma *weak-is-transitive*:
assumes $x \in carrier \wedge y \in carrier \wedge z \in carrier$
shows $x \succeq y \Longrightarrow y \succeq z \Longrightarrow x \succeq z$
by (*meson transD transitivity*)

lemma *no-better-than-nonepty*:
assumes $carrier \neq \{\}$
shows $\bigwedge x.\ x \in carrier \Longrightarrow$ (*no-better-than x carrier relation*) $\neq \{\}$
by (*metis* (*no-types*, *lifting*) *empty-iff mem-Collect-eq*
no-better-than-def refl-onD reflexivity)

lemma *no-better-subset-pref* :
assumes $x \succeq y$
shows *no-better-than y carrier relation* $\subseteq$ *no-better-than x carrier relation*
proof
fix *a*
assume $a \in$ *no-better-than y carrier relation*
then show $a \in$ *no-better-than x carrier relation*
by (*metis* (*no-types*, *lifting*) *assms mem-Collect-eq no-better-than-def transE transitivity*)

qed

lemma *no-better-thansubset-rel* :
  assumes $x \in carrier$ **and** $y \in carrier$
  assumes *no-better-than y carrier relation* $\subseteq$ *no-better-than x carrier relation*
  shows $x \succeq y$
proof −
  have $\{a \in carrier.\ y \succeq a\} \subseteq \{a \in carrier.\ x \succeq a\}$
    by (*metis* (*no-types*) *assms*(*3*) *no-better-than-def*)
  then show *?thesis*
    by (*metis* (*mono-tags*, *lifting*) *Collect-mono-iff assms*(*2*) *compl*)
qed

lemma *nbt-nest* :
  shows (*no-better-than y carrier relation* $\subseteq$ *no-better-than x carrier relation*) $\vee$
    (*no-better-than x carrier relation* $\subseteq$ *no-better-than y carrier relation*)
  by (*metis* (*no-types*, *lifting*) *CollectD compl no-better-subset-pref no-better-than-def not-outside subsetI*)

lemma *at-lst-asgd-not-ge*:
  assumes $carrier \neq \{\}$
  assumes $x \in carrier$ **and** $y \in carrier$
  assumes $x \notin$ *at-least-as-good y carrier relation*
  shows $\neg\ x \succeq y$
  by (*metis* (*no-types*, *lifting*) *CollectI assms*(*2*) *assms*(*4*) *at-least-as-good-def*)

lemma *as-good-as-sameIff* [*iff*]:
  $z \in$ *as-good-as y carrier relation* $\longleftrightarrow z \succeq y \wedge y \succeq z$
  by (*metis* (*no-types*, *lifting*) *as-good-as-def mem-Collect-eq not-outside*)

lemma *same-at-least-as-equal*:
  assumes $z \approx y$
  shows *at-least-as-good z carrier relation* =
    at-least-as-good y carrier relation (**is** *?az* = *?ay*)
proof
  have $z \in carrier \wedge y \in carrier$
    by (*meson assms refl-onD2 reflexivity*)
  moreover have $\forall x \in carrier.\ x \succeq z \longrightarrow x \succeq y$
    by (*meson assms transD transitivity*)
  ultimately show *?az* $\subseteq$ *?ay*
    by (*metis at-lst-asgd-ge at-lst-asgd-not-ge*
      equals0D not-outside subsetI)
next
  have $z \in carrier \wedge y \in carrier$
    by (*meson assms refl-onD2 reflexivity*)
  moreover have $\forall x \in carrier.\ x \succeq y \longrightarrow x \succeq z$
    by (*meson assms transD transitivity*)
  ultimately show *?ay* $\subseteq$ *?az*
    by (*metis at-lst-asgd-ge at-lst-asgd-not-ge*

```
      equals0D not-outside subsetI)
qed

lemma as-good-asIff [iff]:
  x ∈ as-good-as y carrier relation ⟷ x ≈[relation] y
  by blast

lemma nbt-subset:
  assumes finite carrier
  assumes x ∈ carrier and y ∈ carrier
  shows no-better-than x carrier relation ⊆ no-better-than x carrier relation ∨
        no-better-than x carrier relation ⊆ no-better-than x carrier relation
  by auto

lemma fnt-carrier-fnt-rel: finite carrier ⟹ finite relation
  by (metis finite-SigmaI refl-on-def reflexivity rev-finite-subset)

lemma nbt-subset-carrier:
  assumes x ∈ carrier
  shows no-better-than x carrier relation ⊆ carrier
  using no-better-than-def by fastforce

lemma xy-in-eachothers-nbt:
  assumes x ∈ carrier y ∈ carrier
  shows x ∈ no-better-than y carrier relation ∨
        y ∈ no-better-than x carrier relation
 by (meson assms(1) assms(2) contra-subsetD nbt-nest refl-onD reflexivity worse-in-no-better)

lemma same-nbt-same-pref:
  assumes x ∈ carrier y ∈ carrier
  shows x ∈ no-better-than y carrier relation ∧
        y ∈ no-better-than x carrier relation ⟷ x ≈ y
    by (metis (mono-tags, lifting) CollectD contra-subsetD no-better-subset-pref
      no-better-than-def worse-in-no-better)

lemma indifferent-imp-weak-pref:
  assumes x ≈ y
  shows x ≽ y y ≽ x
  by (simp add: assms)+
```

3.3 Finite carrier

```
context
  assumes finite carrier
begin

lemma fnt-carrier-fnt-nbt:
  shows ∀ x∈carrier. finite (no-better-than x carrier relation)
proof
```

fix x
assume $x \in carrier$
then show *finite* (*no-better-than* x *carrier relation*)
using *finite-subset nbt-subset-carrier* ‹*finite carrier*› **by** *blast*
qed

lemma *nbt-subset-imp-card-leq*:
assumes $x \in carrier$ **and** $y \in carrier$
shows *no-better-than* x *carrier relation* $\subseteq$ *no-better-than* y *carrier relation* $\longleftrightarrow$
card (*no-better-than* x *carrier relation*) $\leq$ *card* (*no-better-than* y *carrier relation*)
(**is** *?nbt* $\longleftrightarrow$ *?card*)
proof
assume *?nbt*
then show *?card*
by (*simp add*: *assms*(*2*) *card-mono fnt-carrier-fnt-nbt*)
next
assume *?card*
then show *?nbt*
by (*metis assms*(*1*) *card-seteq fnt-carrier-fnt-nbt nbt-nest*)
qed

lemma *card-leq-pref*:
assumes $x \in carrier$ **and** $y \in carrier$
shows *card* (*no-better-than* x *carrier relation*) $\leq$ *card* (*no-better-than* y *carrier relation*)
$\longleftrightarrow y \succeq x$
proof (*rule iffI*, *goal-cases*)
case *1*
then show *?case*
using *assms*(*1*) *assms*(*2*) *nbt-subset-imp-card-leq no-better-thansubset-rel* **by** *presburger*
next
case *2*
then show *?case*
using *assms*(*1*) *assms*(*2*) *nbt-subset-imp-card-leq no-better-subset-pref* **by** *blast*
qed

lemma *finite-ne-remove-induct*:
assumes *finite* B $B \neq \{\}$
$\bigwedge A.$ *finite* $A \Longrightarrow A \subseteq B \Longrightarrow A \neq \{\} \Longrightarrow$
$(\bigwedge x.\ x \in A \Longrightarrow A - \{x\} \neq \{\} \Longrightarrow P\ (A - \{x\})) \Longrightarrow P\ A$
shows $P\ B$
by (*metis assms finite-remove-induct*[**where** $P = \lambda F.\ F = \{\} \vee P\ F$ **for** P])

lemma *finite-nempty-preorder-has-max*:
assumes *finite* B $B \neq \{\}$ *refl-on* B R *trans* R *total-on* B R
shows $\exists x \in B.\ \forall y \in B.\ (x,\ y) \in R$
using *assms*(*1*) *subset-refl*[*of* B] *assms*(*2*)

proof (*induct B rule*: *finite-subset-induct*)
  case (*insert x F*)
  then show *?case* **using** *assms*(*3*−)
    by (*cases F* = {}) (*auto simp*: *refl-onD total-on-def*, *metis refl-onD2 transE*)
qed *auto*

lemma *finite-nempty-preorder-has-min*:
  assumes *finite B B* $\neq$ {} *refl-on B R trans R total-on B R*
  shows $\exists\, x \in B.\ \forall\, y \in B.\ (y,\, x) \in R$
  using *assms*(*1*) *subset-refl*[*of B*] *assms*(*2*)
proof (*induct B rule*: *finite-subset-induct*)
  case (*insert x F*)
  then show *?case* **using** *assms*(*3*−)
    by (*cases F* = {}) (*auto simp*: *refl-onD total-on-def*, *metis refl-onD2 transE*)
qed *auto*

lemma *finite-nonempty-carrier-has-maximum*:
  assumes *carrier* $\neq$ {}
  shows $\exists$ *e* $\in$ *carrier*. $\forall$ *m* $\in$ *carrier*. *e* $\succeq$[*relation*] *m*
  using *finite-nempty-preorder-has-max*[*of carrier relation*] *assms*
    ‹*finite carrier*› *reflexivity total transitivity* **by** *blast*

lemma *finite-nonempty-carrier-has-minimum*:
  assumes *carrier* $\neq$ {}
  shows $\exists$ *e* $\in$ *carrier*. $\forall$ *m* $\in$ *carrier*. *m* $\succeq$[*relation*] *e*
  using *finite-nempty-preorder-has-min*[*of carrier relation*] *assms*
    ‹*finite carrier*› *reflexivity total transitivity* **by** *blast*

end

lemma *all-carrier-ex-sub-rel*:
  $\forall$ *c* $\subseteq$ *carrier*. $\exists$ *r* $\subseteq$ *relation*. *rational-preference c r*
proof (*standard*,*standard*)
  fix *c*
  assume *c-in*: *c* $\subseteq$ *carrier*
  define r' **where**
    r' = {(*x*,*y*) $\in$ *relation*. *x* $\in$ *c* $\wedge$ *y* $\in$ *c*}
  have r'-*sub*: $r' \subseteq c \times c$
    using r'-*def* **by** *blast*
  have $\forall$ *x* $\in$ *c*. *x* $\succeq$[r'] *x*
    by (*metis* (*no-types*, *lifting*) *CollectI c-in case-prodI compl* r'-*def subsetCE*)
  then have *refl*: *refl-on c* r'
    by (*meson* r'-*sub refl-onI*)
  have *trans*: *trans* r'
  proof
    fix *x y z*
    assume *a1*: *x* $\succeq$[r'] *y*
    assume *a2*: *y* $\succeq$[r'] *z*

show $x \succeq[r'] z$
by (*metis* (*mono-tags*, *lifting*) *CollectD CollectI a1 a2 case-prodD case-prodI r'-def transE transitivity*)
qed
have *total*: *total-on c r'*
proof (*standard*)
fix *x y*
assume *a1*:$x \in c$
assume *a2*: $y \in c$
assume *a3*: $x \neq y$
show $x \succeq[r'] y \lor y \succeq[r'] x$
by (*metis* (*no-types*, *lifting*) *CollectI a1 a2 c-in case-prodI compl r'-def subset-iff*)
qed
have *rational-preference c r'*
by (*meson local.refl local.trans preference.intro preorder-on-def rational-preference.intro*

rational-preference-axioms.intro refl-on-domain total)
thus $\exists r \subseteq relation.$ *rational-preference c r*
by (*metis* (*no-types*, *lifting*) *CollectD case-prodD r'-def subrelI*)
qed

end

3.4 Local Non-Satiation

Defining local non-satiation.

definition *local-nonsatiation*
where
local-nonsatiation B P $\longleftrightarrow$
$(\forall x \in B.\ \forall e>0.\ \exists y \in B.\ norm\ (y - x) \leq e \land y \succ[P]\ x)$

Alternate definitions and intro/dest rules with them

lemma *lns-alt-def1* [*iff*] :
shows *local-nonsatiation B P* $\longleftrightarrow (\forall x \in B.\ \forall e>0.\ (\exists y \in B.\ dist\ y\ x \leq e \land y \succ[P]\ x))$
by(*simp add* : *dist-norm local-nonsatiation-def*)

lemma *lns-normI* [*intro*]:
assumes $\bigwedge x\ e.\ x \in B \Longrightarrow e > 0 \Longrightarrow (\exists y \in B.\ norm\ (y - x) \leq e \land y \succ[P]\ x)$
shows *local-nonsatiation B P*
by (*simp add*: *assms dist-norm*)

lemma *lns-distI* [*intro*]:
assumes $\bigwedge x\ e.\ x \in B \Longrightarrow e > 0 \Longrightarrow (\exists y \in B.\ (dist\ y\ x) \leq e \land y \succ[P]\ x)$
shows *local-nonsatiation B P*
by (*meson lns-alt-def1 assms*)

lemma *lns-alt-def2* [*iff*]:

$local\text{-}nonsatiation\ B\ P \longleftrightarrow (\forall x{\in}B.\ \forall e{>}0.\ (\exists y.\ \ y \in (ball\ x\ e) \wedge y \in B \wedge y \succ[P]\ x))$
proof
assume *local-nonsatiation B P*
then show $\forall x{\in}B.\ \forall e{>}0.\ \exists x'.\ x' \in ball\ x\ e \wedge x' \in B \wedge x' \succ[P]\ x$
by (*auto simp add* : *ball-def*) (*metis dense le-less-trans dist-commute*)
next
assume $\forall x{\in}B.\ \forall e{>}0.\ \exists y.\ y \in ball\ x\ e \wedge y \in B \wedge y \succ[P]\ x$
then show *local-nonsatiation B P*
by (*metis* (*no-types*, *lifting*) *ball-def dist-commute less-le-not-le lns-alt-def1 mem-Collect-eq*)
qed

lemma *lns-normD* [*dest*]:
assumes *local-nonsatiation B P*
shows $\forall x \in B.\ \forall e{>}0.\ \exists y \in B.\ (norm\ (y - x) \leq e \wedge y \succ[P]\ x)$
by (*meson assms local-nonsatiation-def*)

3.5 Convex preferences

definition *weak-convex-pref* :: (*'a::real-vector*) *relation* ⇒ *bool*
where
$weak\text{-}convex\text{-}pref\ Pr \longleftrightarrow (\forall x\ y.\ x \succeq[Pr]\ y \longrightarrow (\forall \alpha\ \beta.\ \alpha + \beta = 1 \wedge \alpha > 0 \wedge \beta > 0 \longrightarrow \alpha *_R x + \beta *_R y \succeq[Pr]\ y))$

definition *convex-pref* :: (*'a::real-vector*) *relation* ⇒ *bool*
where
$convex\text{-}pref\ Pr \longleftrightarrow (\forall x\ y.\ x \succ[Pr]\ y \longrightarrow (\forall \alpha.\ 1 > \alpha \wedge \alpha > 0 \longrightarrow \alpha *_R x + (1-\alpha) *_R y \succ[Pr]\ y))$

definition *strict-convex-pref* :: (*'a::real-vector*) *relation* ⇒ *bool*
where
$strict\text{-}convex\text{-}pref\ Pr \longleftrightarrow (\forall x\ y.\ x \succeq[Pr]\ y \wedge x \neq y \longrightarrow (\forall \alpha.\ 1 > \alpha \wedge \alpha > 0 \longrightarrow \alpha *_R x + (1-\alpha) *_R y \succ[Pr]\ y))$

lemma *convex-ge-imp-conved*:
assumes $\forall x\ y.\ x \succeq[Pr]\ y \longrightarrow (\forall \alpha\ \beta.\ \alpha + \beta = 1 \wedge \alpha \geq 0 \wedge \beta \geq 0 \longrightarrow \alpha *_R x + \beta *_R y \succeq[Pr]\ y)$
shows *weak-convex-pref Pr*
by (*simp add*: *assms weak-convex-pref-def*)

lemma *weak-convexI* [*intro*]:
assumes $\bigwedge x\ y\ \alpha\ \beta.\ x \succeq[Pr]\ y \Longrightarrow \alpha + \beta = 1 \Longrightarrow 0 < \alpha \Longrightarrow 0 < \beta \Longrightarrow \alpha *_R x + \beta *_R y \succeq[Pr]\ y$
shows *weak-convex-pref Pr*
by (*simp add*: *assms weak-convex-pref-def*)

lemma *weak-convexD* [*dest*]:
assumes *weak-convex-pref Pr* **and** $x \succeq[Pr]\ y$ **and** $0 < u$ **and** $0 < v$ **and** $u +$

$v = 1$
  shows $u *_R x + v *_R y \succeq[Pr]\ y$
    using *assms weak-convex-pref-def* **by** *blast*

3.6 Real Vector Preferences

Preference relations on real vector type class.

locale *real-vector-rpr* = *rational-preference carrier relation*
for *carrier* :: *'a::real-vector set*
and *relation* :: *'a relation*

sublocale *real-vector-rpr* ⊆ *rational-preference carrier relation*
  by (*simp add*: *rational-preference-axioms*)

context *real-vector-rpr*
begin

lemma *have-rpr*: *rational-preference carrier relation*
  by (*simp add*: *rational-preference-axioms*)

Multiple convexity alternate definitions intro/dest rules.

lemma *weak-convex1D* [*dest*]:
  assumes *weak-convex-pref relation* **and** $x \succeq[relation]\ y$ **and** $0 \leq u$ **and** $0 \leq v$
and $u + v = 1$
  shows $u *_R x + v *_R y \succeq[relation]\ y$
proof−
  have *u-0*: $u = 0 \longrightarrow u *_R x + v *_R y \succeq[relation]\ y$
  proof
    assume *u-0*: $u = 0$
    have $v = 1$
      using *assms*(*5*) *u-0* **by** *auto*
    then have *?thesis*
      by (*metis add.left-neutral assms*(*2*) *preference.reflexivity preference-axioms real-vector.scale-zero-left refl-onD2 scaleR-one strict-not-refl-weak*)
    thus $u *_R x + v *_R y \succeq[relation]\ y$
      using *u-0* **by** *blast*
  qed
  have $u \neq 0 \wedge u \neq 1 \longrightarrow u *_R x + v *_R y \succeq[relation]\ y$
    by (*metis add-cancel-right-right antisym-conv not-le assms weak-convexD*)
  then show *?thesis*
   by (*metis u-0 assms*(*2*,*5*) *add-cancel-right-right real-vector.scale-zero-left scaleR-one*)
qed

lemma *weak-convex1I* [*intro*] :
  assumes ∀ *x*. *convex* (*at-least-as-good x carrier relation*)
  shows *weak-convex-pref relation*
proof (*rule weak-convexI*)
  fix *x* **and** *y* **and** *α β* :: *real*
  assume *assum* : $x \succeq[relation]\ y$

```
  assume reals: 0 < α 0 < β  α + β = 1
  then have x ∈ carrier
   by (meson assum preference.not-outside rational-preference.axioms(1) have-rpr)
  have y ∈ carrier
    by (meson assum refl-onD2 reflexivity)
  then have y-in-upper-cont: y ∈ (at-least-as-good y carrier relation)
    using assms rational-preference.at-lst-asgd-not-ge
      rational-preference.compl  by (metis empty-iff have-rpr)
  then have x ∈ (at-least-as-good y carrier relation)
    using assum pref-in-at-least-as by blast
  moreover have 0 ≤ β and 0 ≤ α
    using reals by (auto)
  ultimately show (α *R x + β *R y) ≽[relation] y
    by (meson assms(1) at-least-as-goodD convexD reals(3) y-in-upper-cont)
qed
```

Definition of convexity in "Handbook of Social Choice and Welfare"[1].

```
lemma convex-def-alt:
  assumes rational-preference carrier relation
  assumes weak-convex-pref relation
  shows (∀ x ∈ carrier. convex (at-least-as-good x carrier relation))
proof
  fix x
  assume x-in: x ∈ carrier
  show convex (at-least-as-good x carrier relation) (is convex ?x)
  proof (rule convexI)
    fix a b :: 'a and  α :: real and β :: real
    assume a-in: a ∈ ?x
    assume b-in: b ∈ ?x
    assume reals:  0 ≤ α 0 ≤ β α + β = 1
    have a-g-x: a ≽[relation] x
      using a-in by blast
    have b-g-x: b ≽[relation] x
      using b-in by blast
    have a ≽[relation] b ∨ b ≽[relation] a
      by (meson a-in at-least-as-goodD b-in preference.not-outside
          rational-preference.compl rational-preference-def assms(1))
    then show α *R a + β *R b ∈ ?x
    proof(rule disjE)
      assume a ≽[relation] b
      then have α *R a + β *R b  ≽[relation] b
        using assms reals by blast
      then have α *R a + β *R b ≽[relation] x
        by (meson b-g-x  assms(1) preference.not-outside x-in
            rational-preference.strict-is-neg-transitive
            rational-preference.strict-not-refl-weak rational-preference-def)
      then show ?thesis
        by (metis (no-types, lifting) CollectI  assms(1)
            at-least-as-good-def preference-def rational-preference-def)
```

```
    next
      assume as: b ≽[relation] a
      then have α *R a + β *R b ≽[relation] a
        by (metis add.commute assms(2) reals weak-convex1D)
      have α *R a + β *R b ≽[relation] a
        by (metis as add.commute  assms(2)
            reals(1,2,3) weak-convex1D)
      then have α *R a + β *R b ≽[relation] x
        by (meson a-g-x assms(1) preference.indiff-trans x-in
            preference.not-outside rational-preference.axioms(1)
            rational-preference.strict-is-neg-transitive )
      then show ?thesis
        using pref-in-at-least-as by blast
    qed
  qed
qed

lemma convex-imp-convex-str-upper-cnt:
  assumes ∀ x ∈ carrier. convex (at-least-as-good x carrier relation)
  shows convex (at-least-as-good x carrier relation − as-good-as x carrier relation)
    (is convex ( ?a − ?b))
proof (rule convexI)
  fix a y u v
  assume as-a: a ∈ ?a − ?b
  assume as-y: y ∈ ?a − ?b
  assume reals: 0 ≤ (u::real) 0 ≤ v u + v = 1
  have cvx: weak-convex-pref relation
    by (meson assms at-least-as-goodD convexI have-rpr
        preference-def rational-preference.axioms(1) weak-convex1I)
  then have a-g-x: a ≻[relation] x
    using as-a by blast
  then have y-gt-x: y ≻[relation] x
    using as-y by blast
  show u *R a + v *R y ∈ ?a − ?b
  proof
    show u *R a + v *R y ∈ ?a
      by (metis DiffD1 a-g-x as-a as-y assms convexD reals have-rpr
          preference-def rational-preference.axioms(1))
  next
    have a ≽[relation] y ∨ y ≽[relation] a
      by (meson a-g-x y-gt-x assms(1) preference.not-outside have-rpr
          rational-preference.axioms(1) rational-preference.strict-not-refl-weak)
    then show u *R a + v *R y ∉ ?b
    proof
      assume a ≽[relation] y
      then have u *R a + v *R y ≽[relation] y
        using cvx assms(1) reals by blast
      then have u *R a + v *R y ≻[relation] x
        using y-gt-x by (meson assms(1) rational-preference.axioms(1) have-rpr
```

rational-preference.strict-is-neg-transitive preference-def)
then show $u *_R a + v *_R y \notin$ *as-good-as x carrier relation*
by *blast*
next
assume $y \succeq[relation]\ a$
then have $u *_R a + v *_R y \succeq[relation]\ a$
using *cvx assms*(*1*) *reals* **by** (*metis add.commute weak-convex1D*)
then have $u *_R a + v *_R y \succ[relation]\ x$
by (*meson a-g-x assms*(*1*) *rational-preference.strict-is-neg-transitive rational-preference.axioms*(*1*) *preference-def have-rpr*)
then show $u *_R a + v *_R y \notin$ *?b*
by *blast*
qed
qed
qed

end

3.6.1 Monotone preferences

definition *weak-monotone-prefs* :: *'a set* ⇒ (*'a::ord*) *relation* ⇒ *bool*
where
weak-monotone-prefs B P ⟷ $(\forall x \in B.\ \forall y \in B.\ x \geq y \longrightarrow x \succeq[P] y)$

definition *monotone-preference* :: *'a set* ⇒ (*'a::ord*) *relation* ⇒ *bool*
where
monotone-preference B P ⟷ $(\forall x \in B.\ \forall y \in B.\ x > y \longrightarrow x \succ[P]\ y)$

Given a carrier set that is unbounded above (not the "standard" mathematical definition), monotonicity implies local non-satiation.

lemma *unbounded-above-mono-imp-lns*:
assumes $\forall M \in carrier.\ (\forall x > M.\ x \in carrier)$
assumes *mono*: *monotone-preference* (*carrier*:: *'a::ordered-euclidean-space set*) *relation*
shows *local-nonsatiation carrier relation*
proof(*rule lns-distI*)
fix *x* **and** *e::real*
assume *x-in*: $x \in carrier$
assume *gz* : $e > 0$
show $\exists y \in carrier.\ dist\ y\ x \leq e \wedge y \succeq[relation]\ x \wedge (x,\ y) \notin relation$
proof−
obtain *v* :: *real* **where**
v:$v < e$ $0 < v$ **using** *gz dense* **by** *blast*
obtain *i* **where**
i:(*i*::*'a*) ∈ *Basis* **by** *fastforce*
define *y* **where**
y-value : $y = x + v *_R i$
have *ge*:$y \geq x$
using *y-value i* **unfolding** *y-value*

by (*simp add*: *v*(*2*) *zero-le-scaleR-iff*)
have $y \neq x$
using *y-value i* **unfolding** *y-value*
using *v*(*2*) **by** *auto*
hence *y-str-g-x* : $y > x$
using *ge* **by** *auto*
have *y-in*: $y \in$ *carrier*
using *assms*(*1*) *x-in y-str-g-x* **by** *blast*
then have *y-pref-x* : $y \succ$[*relation*] x
using *y-str-g-x x-in mono monotone-preference-def* **by** *blast*
hence *norm* $(y - x) \leq e$
using ‹$0 < v$› *y-value y-value i v* **by** *auto*
hence *dist-less-e* : *dist* $y\ x \leq e$
by (*simp add*: *dist-norm*)
thus *?thesis*
using *y-pref-x dist-less-e y-in* **by** *blast*
qed
qed

end

4 Utility Functions

Utility functions and results involving them.

theory *Utility-Functions*
imports
Preferences
begin

4.1 Ordinal utility functions

Ordinal utility function locale

locale *ordinal-utility* =
fixes *carrier* :: *'a set*
fixes *relation* :: *'a relation*
fixes *u* :: *'a* ⇒ *real*
assumes *util-def*[*iff*]: $x \in$ *carrier* $\Longrightarrow y \in$ *carrier* $\Longrightarrow x \succeq$[*relation*] $y \longleftrightarrow u\ x$
$\geq u\ y$
assumes *not-outside*: $x \succeq$[*relation*] $y \Longrightarrow x \in$ *carrier*
and $x \succeq$[*relation*] $y \Longrightarrow y \in$ *carrier*
begin

lemma *util-def-conf*: $x \in$ *carrier* $\Longrightarrow y \in$ *carrier* $\Longrightarrow u\ x \geq u\ y \longleftrightarrow x \succeq$[*relation*]
y
using *util-def* **by** *blast*

lemma *relation-subset-crossp*:

relation $\subseteq$ *carrier* $\times$ *carrier*
proof
fix x
assume $x \in$ *relation*
have $\forall (a,b) \in$ *relation*. $a \in$ *carrier* $\wedge$ $b \in$ *carrier*
by (*metis* (*no-types*, *lifting*) *case-prod-conv ordinal-utility-axioms ordinal-utility-def surj-pair*)
then show $x \in$ *carrier* $\times$ *carrier*
using ‹$x \in$ *relation*› **by** *auto*
qed

Utility function implies totality of relation

lemma *util-imp-total*: *total-on carrier relation*
proof
fix x **and** y
assume *x-inc*: $x \in$ *carrier* **and** *y-inc* : $y \in$ *carrier*
have *fst* : $u\ x \geq u\ y \vee u\ y \geq u\ x$
using *util-def* **by** *auto*
then show $x \succeq$[*relation*] $y \vee y \succeq$[*relation*] x
by (*simp add*: *x-inc y-inc*)
qed

lemma *x-y-in-carrier*: $x \succeq$[*relation*] $y \Longrightarrow x \in$ *carrier* $\wedge$ $y \in$ *carrier*
by (*meson ordinal-utility-axioms ordinal-utility-def*)

Utility function implies transitivity of relation.

lemma *util-imp-trans*: *trans relation*
proof (*rule transI*)
fix x **and** y **and** z
assume *x-y*: $x \succeq$[*relation*] y
assume *y-z*: $y \succeq$[*relation*] z
have *x-ge-y*: $x \succeq$[*relation*] y
using *x-y* **by** *auto*
then have *x-y*: $u\ x \geq u\ y$
by (*meson x-y-in-carrier ordinal-utility-axioms util-def x-y*)
have $u\ y \geq u\ z$
by (*meson y-z ordinal-utility-axioms ordinal-utility-def*)
have $x \in$ *carrier*
using *x-y-in-carrier*[*of x y*] *x-ge-y* **by** *simp*
then have $u\ x \geq u\ z$
using ‹$u\ z \leq u\ y$› *order-trans x-y* **by** *blast*
hence $x \succeq$[*relation*] z
by (*meson* ‹$x \in$ *carrier*› *ordinal-utility-axioms ordinal-utility-def y-z*)
then show $x \succeq$[*relation*] z **.**
qed

lemma *util-imp-refl*: *refl-on carrier relation*
by (*simp add*: *refl-on-def relation-subset-crossp*)

lemma *affine-trans-is-u*:
  shows $\forall \alpha{>}0.\ (\forall \beta.\ \textit{ordinal-utility carrier relation}\ (\lambda x.\ u(x){*}\alpha + \beta))$
proof (*rule allI*, *rule impI*, *rule allI*)
  fix α::*real* **and** β
  assume $*{:}\alpha > 0$
  show *ordinal-utility carrier relation* $(\lambda x.\ u\ x * \alpha + \beta)$
  proof (*subst ordinal-utility-def*, *rule conjI*, *goal-cases*)
    case *1*
    then show *?case*
     by (*metis* $*$ *add.commute add-le-cancel-left not-le real-mult-less-iff1 util-def-conf*)
  next
    case *2*
    then show *?case*
      by (*meson refl-on-domain util-imp-refl*)
  qed
qed

This utility function definition is ordinal. Hence they are only unique up to a monotone transformation.

lemma *ordinality-of-utility-function* :
  fixes f :: *real* $\Rightarrow$ *real*
  assumes *monot*: *monotone* $(>)$ $(>)$ f
  shows $(f \circ u)\ x > (f \circ u)\ y \longleftrightarrow u\ x > u\ y$
proof −
  let $?func = (\lambda x.\ f(u\ x))$
  have $\forall m\ n\ .\ u\ m \geq u\ n \longleftrightarrow ?func\ m \geq ?func\ n$
    by (*metis le-less monot monotone-def not-less*)
  hence $u\ x > u\ y \longleftrightarrow ?func\ x > ?func\ y$
    using *not-le* **by** *blast*
  thus *?thesis* **by** *auto*
qed

corollary *utility-prefs-corresp* :
  fixes f :: *real* $\Rightarrow$ *real*
  assumes *monotonicity* : *monotone* $(>)$ $(>)$ f
  shows $\forall x{\in}carrier.\ \forall y{\in}carrier.\ (x,y) \in relation \longleftrightarrow (f \circ u)\ x \geq (f \circ u)\ y$
  by (*meson monotonicity not-less ordinality-of-utility-function util-def-conf*)

corollary *monotone-comp-is-utility*:
  fixes f :: *real* $\Rightarrow$ *real*
  assumes *monot*: *monotone* $(>)$ $(>)$ f
  shows *ordinal-utility carrier relation* $(f \circ u)$
proof (*rule ordinal-utility.intro*, *goal-cases*)
case (*1 x y*)
  then show *?case*
    using *monot utility-prefs-corresp* **by** *blast*
next
  case (*2 x y*)
  then show *?case*

    using *not-outside* **by** *blast*
next
  case (*3 x y*)
  then show *?case*
    using *x-y-in-carrier* **by** *blast*
qed

lemma *ordinal-utility-left*:
  assumes $x \succeq[relation]\ y$
  shows $u\ x \geq u\ y$
  using *assms x-y-in-carrier* **by** *blast*

lemma *add-right*:
  assumes $\bigwedge x\ y.\ x \succeq[relation]\ y \Longrightarrow f\ x \geq f\ y$
  shows *ordinal-utility carrier relation* $(\lambda x.\ u\ x + f\ x)$
proof (*rule ordinal-utility.intro*, *goal-cases*)
  case (*1 x y*)
  assume *xy*: $x \in carrier\ y \in carrier$
  then show *?case*
  proof −
    have $u\ x \leq u\ y \longrightarrow (\exists r.\ ((x,\ y) \notin relation \wedge \neg\ r \leq u\ x + f\ x) \wedge r \leq u\ y + f\ y) \vee u\ y \leq u\ x$
      by (*metis* (*no-types*) *add-le-cancel-left add-le-cancel-right assms util-def xy*(*1*) *xy*(*2*))
    moreover show *?thesis*
      by (*meson add-mono assms calculation le-cases order-trans util-def xy*(*1*) *xy*(*2*))
  qed
next
  case (*2 x y*)
  then show *?case*
    using *not-outside* **by** *blast*
next
  case (*3 x y*)
  then show *?case*
    using *x-y-in-carrier* **by** *blast*
qed

lemma *add-left*:
  assumes $\bigwedge x\ y.\ x \succeq[relation]\ y \Longrightarrow f\ x \geq f\ y$
  shows *ordinal-utility carrier relation* $(\lambda x.\ f\ x + u\ x)$
proof −
  have *ordinal-utility carrier relation* $(\lambda x.\ u\ x + f\ x)$
    by (*simp add*: *add-right assms*)
  thus *?thesis* **using** *Groups.ab-semigroup-add-class.add.commute*
    by (*simp add*: *add.commute*)
qed

lemma *ordinal-utility-scale-transl*:
  assumes $(c::real) > 0$
  shows *ordinal-utility carrier relation* $(\lambda x.\ c * (u\ x) + d)$
proof –
  have *monotone* $(>)\ (>)\ (\lambda x.\ c * x + d)$ (**is** *monotone* $(>)\ (>)$ *?fn*)
    by (*simp add*: *assms monotone-def*)
  with *monotone-comp-is-utility* **have** *ordinal-utility carrier relation* (*?fn* $\circ$ *u*)
    by *blast*
  moreover have *?fn* $\circ$ $u = (\lambda x.\ c * (u\ x) + d)$
    by *auto*
  finally show *?thesis*
    by *auto*
qed

lemma *strict-prefernce-iff-strict-utility*:
  assumes $x \in$ *carrier*
  assumes $y \in$ *carrier*
  shows $x \succ$[*relation*] $y \longleftrightarrow u\ x > u\ y$
  by (*meson assms*(*1*) *assms*(*2*) *less-eq-real-def not-less util-def*)

end

A utility function implies a rational preference relation. Hence a utility function contains exactly the same amount of information as a RPR

sublocale *ordinal-utility* $\subseteq$ *rational-preference carrier relation*
proof
  fix *x* **and** *y*
  assume *xy*: $x \succeq$[*relation*] y
  then show $x \in$ *carrier*
    and $y \in$ *carrier*
    using *not-outside* **by** (*simp*)
      (*meson xy refl-onD2 util-imp-refl*)
next
  show *preorder-on carrier relation*
  proof–
    have *trans relation* **using** *util-imp-trans* **by** *auto*
    then have *preorder-on carrier relation*
      by (*simp add*: *preorder-on-def util-imp-refl*)
    then show *?thesis* **.**
  qed
next
  show *total-on carrier relation*
    by (*simp add*: *util-imp-total*)
qed

Given a finite carrier set. We can guarantee that given a rational preference relation, there must also exist a utility function representing this relation. Construction of witness roughly follows from.

theorem *fnt-carrier-exists-util-fun*:

assumes *finite carrier*
assumes *rational-preference carrier relation*
shows $\exists\, u.$ *ordinal-utility carrier relation u*
proof –
define *f* **where**
f: $f = (\lambda x.$ *card* (*no-better-than x carrier relation*))
have *ordinal-utility carrier relation f*
proof
fix *x y*
assume *x-c*: $x \in$ *carrier*
assume *y-c*: $y \in$ *carrier*
show $x \succeq$[*relation*] $y \longleftrightarrow$ (*real* (*f y*) $\leq$ *real* (*f x*))
proof
assume *asm*: $x \succeq$[*relation*] *y*
define *yn* **where**
yn: *yn* = *no-better-than y carrier relation*
define *xn* **where**
xn: *xn* = *no-better-than x carrier relation*
then have *yn* $\subseteq$ *xn*
by (*simp add*: *asm yn assms*(*2*) *rational-preference.no-better-subset-pref*)
then have *card yn* $\leq$ *card xn*
by (*simp add*: *x-c y-c asm assms*(*1*) *assms*(*2*) *rational-preference.card-leq-pref xn yn*)
then show (*real* (*f y*) $\leq$ *real* (*f x*))
using *f xn yn* **by** *simp*
next
assume *real* (*f y*) $\leq$ *real* (*f x*)
then show $x \succeq$[*relation*] *y*
using *assms*(*1*) *assms*(*2*) *f rational-preference.card-leq-pref x-c y-c* **by** *fastforce*
qed
next
fix *x y*
assume *asm*: $x \succeq$[*relation*] *y*
show $x \in$ *carrier*
by (*meson asm assms*(*2*) *preference.not-outside rational-preference.axioms*(*1*))
show $y \in$ *carrier*
by (*meson asm assms*(*2*) *preference-def rational-preference-def*)
qed
then show *?thesis*
by *blast*
qed

corollary *obt-u-fnt-carrier*:
assumes *finite carrier*
assumes *rational-preference carrier relation*
obtains *u* **where** *ordinal-utility carrier relation u*
using *assms*(*1*) *assms*(*2*) *fnt-carrier-exists-util-fun* **by** *blast*

```
theorem ordinal-util-imp-rat-prefs:
  assumes ordinal-utility carrier relation u
  shows rational-preference carrier relation
  by (metis (full-types) assms order-on-defs(1) ordinal-utility.util-imp-refl
      ordinal-utility.util-imp-total ordinal-utility.util-imp-trans ordinal-utility-def
      preference.intro rational-preference.intro rational-preference-axioms-def)
```

4.2 Utility function on Euclidean Space

```
locale eucl-ordinal-utility = ordinal-utility carrier relation u
  for carrier :: ('a::euclidean-space) set
  and relation :: 'a relation
  and u :: 'a ⇒ real

sublocale eucl-ordinal-utility ⊆ rational-preference carrier relation
  using rational-preference-axioms by blast


lemma ord-eucl-utility-imp-rpr: eucl-ordinal-utility s rel u ⟶ real-vector-rpr s rel
   using eucl-ordinal-utility.axioms ordinal-util-imp-rat-prefs real-vector-rpr.intro
by blast

context eucl-ordinal-utility
begin
```

Local non-satiation on utility functions

```
lemma lns-pref-lns-util [iff]:
  local-nonsatiation carrier relation ⟷
  (∀ x∈carrier. ∀ e > 0. ∃ y∈carrier.
  norm (y − x) ≤ e ∧ u y > u x) (is - ⟷ ?alt)
proof
  assume lns: local-nonsatiation carrier relation
  have ∀ a b. a ≻ b ⟶ u a > u b
    by (metis less-eq-real-def util-def x-y-in-carrier)
  then show ?alt
    by (meson lns local-nonsatiation-def)
next
  assume lns: ?alt
  show local-nonsatiation carrier relation
  proof(rule lns-normI)
    fix x and e::real
    assume x-in: x ∈ carrier
    assume e: e > 0
    have ∀ x ∈ carrier. ∀ e>0. ∃ y∈carrier. norm (y − x) ≤ e ∧ y ≻ x
      by (meson less-eq-real-def linorder-not-less lns util-def)
    have ∃ y∈carrier. norm (y − x) ≤ e ∧ u y > u x
      using e x-in lns by blast
    then show ∃ y∈carrier. norm (y − x) ≤ e ∧ y ≻ x
      by (meson compl not-less util-def x-in)
```

```
  qed
qed

end

lemma finite-carrier-rpr-iff-u:
  assumes finite carrier
    and (relation::'a relation) ⊆ carrier × carrier
  shows rational-preference carrier relation ⟷ (∃ u. ordinal-utility carrier relation u)
proof
  assume rational-preference carrier relation
  then show ∃ u. ordinal-utility carrier relation u
    by (simp add: assms(1) fnt-carrier-exists-util-fun)
next
  assume ∃ u. ordinal-utility carrier relation u
  then show rational-preference carrier relation
    by (metis (full-types) order-on-defs(1) ordinal-utility.util-imp-refl
        ordinal-utility.util-imp-total ordinal-utility.util-imp-trans ordinal-utility-def
        preference.intro rational-preference-axioms-def rational-preference-def)
qed


end
```

5 Consumers

Consumption sets

```
theory Consumers
  imports
    HOL−Analysis.Multivariate-Analysis
    ../Syntax
begin
```

5.1 Pre Arrow-Debreu consumption set

It turns out that the First Welfare Theorem does not require any particular limitations on the consumption set

```
locale pre-arrow-debreu-consumption-set =
  fixes consumption-set :: ('a::euclidean-space) set
  assumes x ∈ (UNIV:: 'a set) ⟹ x ∈ consumption-set
begin
end
```

5.2 Arrow-Debreu model consumption set

The Arrow-Debreu model consumption set includes more and stricter assumptions which are necessary for further results.

locale *gen-pre-arrow-debreu-consum-set* =
  fixes *consumption-set* :: ($'a$::*ordered-euclidean-space*) *set*
begin

end

locale *arrow-debreu-consum-set* =
  fixes *consumption-set* :: ($'a$::*ordered-euclidean-space*) *set*
  assumes *r-plus*: *consumption-set* $\subseteq$ $\{(x::'a).\ x \geq 0\}$
  assumes *closed*: *closed consumption-set*
  assumes *convex*: *convex consumption-set*
  assumes *non-empty*: *consumption-set* $\neq \{\}$
  assumes $\forall M \in$ *consumption-set*. ($\forall x > M.\ x \in$ *consumption-set*)
begin

lemma *x-larger-0*: $x \in$ *consumption-set* $\Longrightarrow x \geq 0$
  using *r-plus* **by** *auto*

lemma *larger-in-consump-set*:
  $x \in$ *consumption-set* $\wedge\ y \geq x \Longrightarrow y \in$ *consumption-set*
  using *arrow-debreu-consum-set-axioms arrow-debreu-consum-set-def*
    dual-order.order-iff-strict **by** *fastforce*

end

end

theory *Common*
  imports
    ../*Preferences*
    ../*Utility-Functions*
    ../*Argmax*
begin

6 Pareto Ordering

Allows us to define a Pareto Ordering.

locale *pareto-ordering* =
  fixes *agents* :: $'i$ *set*
  fixes U :: $'i \Rightarrow 'a \Rightarrow$ *real*
begin

notation U (U[-])

definition *pareto-dominating* (**infix** $\succ$*Pareto* *60*)
  where
    $X \succ Pareto\ Y \longleftrightarrow$
      $(\forall\, i \in agents.\ U[i]\ (X\ i) \geq U[i]\ (Y\ i)) \wedge$
      $(\exists\, i \in agents.\ U[i]\ (X\ i) > U[i]\ (Y\ i))$

lemma *trans-strict-pareto*: $X \succ Pareto\ Y \Longrightarrow Y \succ Pareto\ Z \Longrightarrow X \succ Pareto\ Z$
proof −
  assume *a1*: $X \succ Pareto\ Y$
  assume $Y \succ Pareto\ Z$
  then have *f3*: $\forall\, i \in agents.\ U[i]\ (Z\ i) \leq U[i]\ (X\ i)$
    by (*meson a1 order-trans pareto-dominating-def*)
  moreover have $\exists\, i \in agents.\ \neg\ U[i]\ (X\ i) \leq U[i]\ (Y\ i)$
    using *a1 pareto-dominating-def* **by** *fastforce*
  ultimately show *?thesis*
    by (*metis* ‹$Y \succ Pareto\ Z$› *less-eq-real-def pareto-dominating-def*)
qed

lemma *anti-sym-strict-pareto*: $X \succ Pareto\ Y \Longrightarrow \neg Y \succ Pareto\ X$
  using *pareto-dominating-def* **by** *auto*

end

6.1 Budget constraint

Definition returns all afforedable bundles given wealth W

f is a function that computes the value given a bundle

definition *budget-constraint*
  where
    budget-constraint $f\ S\ W = \{x \in S.\ f\ x \leq W\}$

6.2 Feasiblity

definition *feasible-private-ownership*
  where
    feasible-private-ownership $A\ F\ \mathcal{E}\ Cs\ Ps\ X\ Y \longleftrightarrow$
      $(\sum i{\in}A.\ X\ i) \leq (\sum i{\in}A.\ \mathcal{E}\ i) + (\sum j{\in}F.\ Y\ j) \wedge$
      $(\forall\, i{\in}A.\ X\ i \in Cs) \wedge (\forall\, j{\in}F.\ Y\ j \in Ps\ j)$

lemma *feasible-private-ownershipD*:
  assumes *feasible-private-ownership* $A\ F\ \mathcal{E}\ Cs\ Ps\ X\ Y$
  shows $(\sum i{\in}A.\ X\ i) \leq (\sum i{\in}A.\ \mathcal{E}\ i) + (\sum j{\in}F.\ Y\ j)$
    and $(\forall\, i{\in}A.\ X\ i \in Cs)$ **and** $(\forall\, j{\in}F.\ Y\ j \in Ps\ j)$
  using *assms feasible-private-ownership-def* **apply** *blast*
  by (*meson assms feasible-private-ownership-def*)
    (*meson assms feasible-private-ownership-def*)

end

theory *Exchange-Economy*
imports
../Preferences
../Utility-Functions
../Argmax
Consumers
Common
begin

7 Exchange Economy

Define the exchange economy model

locale *exchange-economy* =
fixes *consumption-set* :: ('*a*::*ordered-euclidean-space*) *set*
fixes *agents* :: '*i set*
fixes $\mathcal{E}$ :: '*i* ⇒ '*a*
fixes *Pref* :: '*i* ⇒ '*a relation*
fixes *U* :: '*i* ⇒ '*a* ⇒ *real*
assumes *cons-set-props*: *pre-arrow-debreu-consumption-set consumption-set*
assumes *agent-props*: *i* ∈ *agents* ⟹ *eucl-ordinal-utility consumption-set* (*Pref i*) (*U i*)
assumes *finite-agents*: *finite agents* **and** *agents* ≠ {}

sublocale *exchange-economy* ⊆ *pareto-ordering agents U*
.

context *exchange-economy*
begin

context
begin

notation *U* (*U*[-])
notation *Pref* (*Pr*[-])
notation $\mathcal{E}$ ($\mathcal{E}$[-])

lemma *base-pref-is-ord-eucl-rpr*: *i* ∈ *agents* ⟹ *rational-preference consumption-set Pr*[*i*]
by (*meson exchange-economy.agent-props exchange-economy-axioms ord-eucl-utility-imp-rpr real-vector-rpr.have-rpr*)

private abbreviation *calculate-value*

where
  calculate-value $P\ x \equiv P \cdot x$

7.1 Feasibility

definition *feasible-allocation*
  where
  feasible-allocation $A\ E \longleftrightarrow$
  $(\sum i{\in}agents.\ A\ i) \leq (\sum i{\in}agents.\ E\ i)$

7.2 Pareto optimality

definition *pareto-optimal-endow*
  where
  pareto-optimal-endow $X\ E \longleftrightarrow$
  $(feasible\text{-}allocation\ X\ E\ \wedge$
  $(\nexists X'.\ feasible\text{-}allocation\ X'\ E \wedge X' \succ Pareto\ X))$

7.3 Competitive Equilibrium in Exchange Economy

Competitive Equilibirum or Walrasian Equilibrium definition.

definition *comp-equilib-endow*
  where
  comp-equilib-endow $P\ X\ E \equiv$
  $feasible\text{-}allocation\ X\ E\ \wedge$
  $(\forall\ i \in agents.\ X\ i \in arg\text{-}max\text{-}set\ U[i]$
  $(budget\text{-}constraint\ (calculate\text{-}value\ P)\ consumption\text{-}set\ (P \cdot E\ i)))$

7.4 Lemmas for final result

lemma *utility-function-def* [*iff*]:
  assumes $i \in agents$
  shows $U[i]\ x \geq U[i]\ y \longleftrightarrow x \succeq[Pr[i]]\ y$
proof
  have *ordinal-utility consumption-set* $(Pref\ i)\ (U[i])$
  using *agent-props assms eucl-ordinal-utility-def* **by** *auto*
  then show $U[i]\ y \leq\ U[i]\ x \Longrightarrow x \succeq[Pref\ i]\ y$
  by (*meson UNIV-I cons-set-props ordinal-utility.util-def-conf pre-arrow-debreu-consumption-set-def*)
next
  show $x \succeq[Pref\ i]\ y \Longrightarrow U[i]\ y \leq U[i]\ x$
  by (*meson agent-props assms ordinal-utility-def eucl-ordinal-utility-def*)
qed

lemma *budget-constraint-is-feasible*:
  assumes $i \in agents$
  assumes $X \in (budget\text{-}constraint\ (calculate\text{-}value\ P)\ consumption\text{-}set\ (P \cdot \mathcal{E}[i]))$
  shows $P \cdot X \leq P \cdot \mathcal{E}[i]$
  using *budget-constraint-def assms*

by (*simp add*: *budget-constraint-def*)

lemma *arg-max-set-therefore-no-better* :
assumes $i \in$ *agents*
assumes $x \in$ *arg-max-set* $U[i]$ (*budget-constraint* (*calculate-value* P) *consumption-set* ($P \cdot \mathcal{E}[i]$))
shows $U[i]\ y > U[i]\ x \longrightarrow y \notin$ *budget-constraint* (*calculate-value* P) *consumption-set* ($P \cdot \mathcal{E}[i]$)
by (*meson no-better-in-s assms*)

Since we need no restriction on the consumption set for the First Welfare Theorem

lemma *consumption-set-member*: $\forall x.\ x \in$ *consumption-set*
proof −
have $\bigwedge(x{::}'a).\ x \in$ *consumption-set*
using *cons-set-props pre-arrow-debreu-consumption-set-def*
by (*simp add*: *pre-arrow-debreu-consumption-set-def*)
thus *?thesis*
by *blast*
qed

Under the assumption of Local non-satiation, agents will utilise their entire budget.

lemma *argmax-entire-budget* :
assumes $i \in$ *agents*
assumes *local-nonsatiation consumption-set Pr*$[i]$
assumes $X \in$ *arg-max-set* $U[i]$ (*budget-constraint* (*calculate-value* P) *consumption-set* ($P \cdot \mathcal{E}[i]$))
shows $P \cdot X = P \cdot \mathcal{E}[i]$
proof −
have *leq* : $(P \cdot X) \leq (P \cdot \mathcal{E}[i])$
proof−
have $X \in$ *budget-constraint* (*calculate-value* P) *consumption-set* ($P \cdot \mathcal{E}[i]$)
using *argmax-sol-in-s*[*of* X $U[i]$ *budget-constraint* (*calculate-value* P) *consumption-set* ($P \cdot \mathcal{E}[i]$)]
assms **by** *auto*
thus *?thesis*
using *assms*(*1*) *budget-constraint-is-feasible* **by** *blast*
qed
have *not-less*: $\neg(P \cdot X < P \cdot \mathcal{E}[i])$
proof
assume *cpos*: $(P \cdot X) < (P \cdot \mathcal{E}[i])$
define *lesS* **where** *lesS* $= \{x.\ P \cdot x < P \cdot \mathcal{E}[i]\}$
obtain e **where**
e: $0 < e$ *ball* X $e \subseteq$ *lesS*
by (*metis cpos lesS-def mem-Collect-eq*
open-contains-ball-eq open-halfspace-lt)
obtain Y **where**
Y: $Y \succ$[*Pref i*] X $\ Y \in$ *ball* X e

using *e consumption-set-member assms* **by** *blast*
have $Y \in$ *consumption-set*
using *consumption-set-member* **by** *blast*
hence $Y \in$ *budget-constraint* (*calculate-value* P) *consumption-set* ($P \cdot \mathcal{E}[i]$)
using *budget-constraint-def e lesS-def*
less-eq-real-def Y **by** *fastforce*
thus *False*
by (*meson assms* Y *all-leq utility-function-def*)
qed
show *?thesis*
using *leq not-less* **by** *auto*
qed

All bundles that would be strictly preferred to any argmax result, are more expensive.

lemma *pref-more-expensive*:
assumes $i \in$ *agents*
assumes $x \in$ *arg-max-set* $U[i]$ (*budget-constraint* (*calculate-value* P) *consumption-set* ($P \cdot \mathcal{E}[i]$))
assumes $U[i]\ y > U[i]\ x$
shows $y \cdot P > P \cdot \mathcal{E}[i]$
proof (*rule ccontr*)
assume *cpos* : $\neg(y \cdot P > P \cdot \mathcal{E}[i])$
then have *xp-leq* : $y \cdot P \leq P \cdot \mathcal{E}[i]$
by *auto*
hence $x \in$ *budget-constraint* (*calculate-value* P) *consumption-set* ($P \cdot \mathcal{E}[i]$)
using *argmax-sol-in-s*[*of* x $U[i]$ *budget-constraint* (*calculate-value* P) *consumption-set* ($P \cdot \mathcal{E}[i]$)]
assms **by** *auto*
hence *xp-in*: $y \in$ *budget-constraint* (*calculate-value* P) *consumption-set* ($P \cdot \mathcal{E}[i]$)
proof −
have $P \cdot y \leq P \cdot \mathcal{E}[i]$
by (*metis xp-leq inner-commute*)
then show *?thesis*
using *consumption-set-member* **by** (*simp add*: *budget-constraint-def*)
qed
hence $y \succ$[*Pref i*] x
using *arg-max-set-therefore-no-better assms* **by** *blast*
hence $y \succ$[*Pref i*] $x \wedge y \in$ *budget-constraint* (*calculate-value* P) *consumption-set* ($P \cdot \mathcal{E}[i]$)
using *xp-in* **by** *blast*
hence $x \notin$ *arg-max-set* $U[i]$ (*budget-constraint* (*calculate-value* P) *consumption-set* ($P \cdot \mathcal{E}[i]$))
by (*meson assms exchange-economy.arg-max-set-therefore-no-better*
exchange-economy-axioms)
then show *False*
using *assms*(2) **by** *auto*
qed

Greater or equal utility implies greater or equal price.

lemma *same-util-is-equal-or-more-expensive*:
assumes $i \in$ *agents*
assumes *local-nonsatiation consumption-set* $Pr[i]$
assumes $x \in$ *arg-max-set* $U[i]$ (*budget-constraint* (*calculate-value* P) *consumption-set* ($P \cdot \mathcal{E}[i]$))
assumes $U[i]\ y \geq U[i]\ x$
shows $y \cdot P \geq P \cdot \mathcal{E}[i]$
proof−
have *not-in*: $y \notin$ *arg-max-set* $U[i]$ (*budget-constraint* (*calculate-value* P) *consumption-set* ($P \cdot \mathcal{E}[i]$))
$\Longrightarrow y \cdot P > P \cdot \mathcal{E}[i]$
proof−
assume $y \notin$ *arg-max-set* $U[i]$ (*budget-constraint* (*calculate-value* P) *consumption-set* ($P \cdot \mathcal{E}[i]$))
then have $y \notin$ *budget-constraint* (*calculate-value* P) *consumption-set* ($P \cdot \mathcal{E}[i]$)
by (*meson assms leq-all-in-sol assms*)
then show *?thesis*
by (*simp add*: *budget-constraint-def inner-commute consumption-set-member*)
qed
show *?thesis*
by (*metis argmax-entire-budget not-in assms*(*1*,*2*,*3*) *dual-order.order-iff-strict inner-commute*)
qed

lemma *all-in-argmax-same-price*:
assumes $i \in$ *agents*
assumes *local-nonsatiation consumption-set* $Pr[i]$
assumes $x \in$ *arg-max-set* $U[i]$ (*budget-constraint* (*calculate-value* P) *consumption-set* ($P \cdot \mathcal{E}[i]$))
and $y \in$ *arg-max-set* $U[i]$ (*budget-constraint* (*calculate-value* P) *consumption-set* ($P \cdot \mathcal{E}[i]$))
shows $P \cdot x = P \cdot y$
using *argmax-entire-budget assms*(*1*) *assms*(*2*) *assms*(*3*) *assms*(*4*) **by** *presburger*

All rationally acting agents (which is every agent by assumption) will not decrease his utility

lemma *individual-rationalism* :
assumes *comp-equilib-endow* $P\ X\ \mathcal{E}$
shows $\forall\, i \in$ *agents*. $X\ i \succeq[$*Pref* $i]\ \mathcal{E}[i]$
by (*metis pref-more-expensive comp-equilib-endow-def assms inner-commute less-irrefl not-le utility-function-def*)

lemma *walras-law-per-agent* :
assumes $\bigwedge i.\ i \in$ *agents* $\Longrightarrow$ *local-nonsatiation consumption-set* $Pr[i]$
assumes *comp-equilib-endow* $P\ X\ \mathcal{E}$
shows $\forall\, i \in$ *agents*. $P \cdot X\ i = P \cdot \mathcal{E}[i]$
by (*meson argmax-entire-budget comp-equilib-endow-def assms*)

Walras Law holds in our Exchange Economy model. It states that in an equilibrium, demand equals supply

lemma *walras-law*:
  assumes $\bigwedge i.\ i \in agents \Longrightarrow$ *local-nonsatiation consumption-set* $Pr[i]$
  assumes *comp-equilib-endow* $P\ X\ \mathcal{E}$
  shows $(\sum i{\in}agents.\ P \cdot (X\ i)) - (\sum i{\in}agents.\ P \cdot \mathcal{E}[i]) = 0$
  using *assms walras-law-per-agent* **by** *auto*

lemma *inner-with-ge-0*: $(P{::}(real,\ 'n{::}finite)\ vec) > 0 \Longrightarrow A \geq B \Longrightarrow\ P \cdot A \geq P \cdot B$
  by (*metis dual-order.order-iff-strict inner-commute*
    interval-inner-leI(*2*) *ord-class.atLeastAtMost-iff*)

7.5 First Welfare Theorem in Exchange Economy

We prove the first welfare theorem in our Exchange Economy model.

theorem *first-welfare-theorem-exchange*:
  assumes *lns* : $\bigwedge i.\ i \in agents \Longrightarrow$ *local-nonsatiation consumption-set* $Pr[i]$
    and *price-cond*: *Price* > 0
  assumes *equilibrium* : *comp-equilib-endow Price* $\mathcal{X}\ \mathcal{E}$
  shows *pareto-optimal-endow* $\mathcal{X}\ \mathcal{E}$
proof (*rule ccontr*)
  assume *neg-ass* : $\neg$ *pareto-optimal-endow* $\mathcal{X}\ \mathcal{E}$
  have *equili-feasible* : *feasible-allocation* $\mathcal{X}\ \mathcal{E}$
    using *comp-equilib-endow-def equilibrium*
    by (*simp add*: *comp-equilib-endow-def*)
  have *price-g-zero* : *Price* > 0
    by (*simp add*: *price-cond*)
  obtain Y **where**
    xprime-pareto: *feasible-allocation* $Y\ \mathcal{E} \wedge$
        $(\forall\, i \in agents.\ U[i]\ (Y\ i) \geq U[i]\ (\mathcal{X}\ i)) \wedge$
        $(\exists\, i \in agents.\ U[i]\ (Y\ i) > U[i]\ (\mathcal{X}\ i))$
    using *equili-feasible neg-ass pareto-dominating-def*
      pareto-optimal-endow-def **by** *auto*
  have *is-feasible* : *feasible-allocation* $Y\ \mathcal{E}$
    using *xprime-pareto* **by** *blast*
  have *all-great-eq-value* : $\forall\, i \in agents.\ Price \cdot (Y\ i) \geq Price \cdot (\mathcal{X}\ i)$
  proof
    fix i
    assume $i \in agents$
    show $Price \cdot (Y\ i) \geq Price \cdot (\mathcal{X}\ i)$
    proof $-$
     have *x-in-agmx* : $(\mathcal{X}\ i) \in$ *arg-max-set* $U[i]$ (*budget-constraint* (*calculate-value Price*) *consumption-set* $(Price \cdot \mathcal{E}[i])$)
       by (*meson* ‹$i \in agents$› *comp-equilib-endow-def equilibrium*)
     have $(\ U[i])\ (\mathcal{X}\ i) - U[i]\ (Y\ i) \leq 0$
       using ‹$i \in agents$› *xprime-pareto* **by** *auto*
     hence $Price \cdot (\mathcal{X}\ i) - Price \cdot (Y\ i) \leq 0$

by (*metis* ‹$i \in$ *agents*› *argmax-entire-budget diff-le-0-iff-le x-in-agmx inner-commute lns same-util-is-equal-or-more-expensive*)
then show *?thesis*
by *auto*
qed
qed
have *ex-greater-value* : $\exists\, i \in$ *agents*. *Price* $\cdot$ (Y i) $>$ *Price* $\cdot$ ($\mathcal{X}$ i)
proof (*rule ccontr*)
assume *a1* : $\neg(\exists\, i \in$ *agents*. *Price* $\cdot$ (Y i) $>$ *Price* $\cdot$ ($\mathcal{X}$ i))
obtain i **where**
obt-witness : $i \in$ *agents* $U[i]$ (Y i) $>$ ($U[i]$) ($\mathcal{X}$ i)
using *xprime-pareto* **by** *blast*
have *Price* $\cdot$ Y $i \neq$ *Price* $\cdot$ $\mathcal{X}$ i
proof −
have *Price* $\cdot$ Y $i >$ *Price* $\cdot$ $\mathcal{E}$ i
by (*metis pref-more-expensive comp-equilib-endow-def equilibrium inner-commute obt-witness*(*1*) *obt-witness*(*2*))
have *Price* $\cdot$ $\mathcal{E}$ $i =$ *Price* $\cdot$ $\mathcal{X}$ i
using *equilibrium lns obt-witness*(*1*) *walras-law-per-agent* **by** *auto*
then show *?thesis*
using ‹*Price* $\cdot$ $\mathcal{E}$ $i <$ *Price* $\cdot$ Y i› **by** *linarith*
qed
then show *False*
using *a1 all-great-eq-value obt-witness*(*1*) **by** *fastforce*
qed
have *dominating-more-exp* : *Price* $\cdot$ ($\sum i{\in}$*agents*. Y i) $>$ *Price* $\cdot$ ($\sum i{\in}$*agents*. $\mathcal{X}$ i)
proof −
have *mp-rule* : ($\sum i{\in}$*agents*. *Price* $\cdot$ Y i) $>$ ($\sum i{\in}$*agents*. *Price* $\cdot$ $\mathcal{X}$ i) $\Longrightarrow$ *?thesis*
by (*simp add*: *inner-sum-right*)
have ($\sum i{\in}$*agents*. *Price* $\cdot$ Y i) $>$ ($\sum i{\in}$*agents*. *Price* $\cdot$ $\mathcal{X}$ i)
by (*simp add*: *all-great-eq-value finite-agents ex-greater-value sum-strict-mono-ex1*)
thus *Price* $\cdot$ ($\sum i{\in}$*agents*. Y i) $>$ *Price* $\cdot$ ($\sum i{\in}$*agents*. $\mathcal{X}$ i)
using *mp-rule* **by** *blast*
qed
have *equili-walras-law* : *Price* $\cdot$ ($\sum i{\in}$*agents*. $\mathcal{X}$ i) $=$ *Price* $\cdot$ ($\sum i{\in}$*agents*. $\mathcal{E}[i]$)
by (*metis* (*mono-tags*) *eq-iff-diff-eq-0 equilibrium inner-sum-right lns walras-law*)
have *dominating-feasible* : *Price* $\cdot$ ($\sum i{\in}$*agents*. $\mathcal{X}$ i) $\geq$ *Price* $\cdot$ ($\sum i{\in}$*agents*. Y i)
by (*metis atLeastAtMost-iff dual-order.order-iff-strict equili-walras-law feasible-allocation-def inner-commute interval-inner-leI*(*1*) *is-feasible price-g-zero*)
show *False*
using *dominating-more-exp equili-walras-law dominating-feasible*
by *linarith*
qed

Monotone preferences can be used instead of local non-satiation. Many textbooks etc. do not introduce the concept of local non-satiation and use monotonicity instead.

corollary *first-welfare-exch-thm-monot*:
assumes $\forall M \in carrier. (\forall x > M. x \in carrier)$
assumes $\bigwedge i.\ i \in agents \Longrightarrow$ *monotone-preference consumption-set* $Pr[i]$
and *price-cond*: *Price* > 0
assumes *comp-equilib-endow Price* $\mathcal{X}$ $\mathcal{E}$
shows *pareto-optimal-endow* $\mathcal{X}$ $\mathcal{E}$
by (*meson assms exchange-economy.consumption-set-member first-welfare-theorem-exchange exchange-economy-axioms unbounded-above-mono-imp-lns*)

end

end

end

8 Pre Arrow-Debreu model

Model similar to Arrow-Debreu model but with fewer assumptions, since we only need assumptions strong enough to proof the First Welfare Theorem.

theory *Private-Ownership-Economy*
imports
../Preferences
../Preferences
../Utility-Functions
../Argmax
Consumers
Common
begin

locale *pre-arrow-debreu-model* =
fixes *production-sets* :: $'f \Rightarrow ('a::ordered\text{-}euclidean\text{-}space)\ set$
fixes *consumption-set* :: $'a\ set$
fixes *agents* :: $'i\ set$
fixes *firms* :: $'f\ set$
fixes $\mathcal{E}$ :: $'i \Rightarrow 'a$ ($\mathcal{E}$[-])
fixes *Pref* :: $'i \Rightarrow 'a\ relation$ (Pr[-])
fixes U :: $'i \Rightarrow 'a \Rightarrow real$ (U[-])
fixes Θ :: $'i \Rightarrow 'f \Rightarrow real$ (Θ[-,-])
assumes *cons-set-props*: *pre-arrow-debreu-consumption-set consumption-set*
assumes *agent-props*: $i \in agents \Longrightarrow$ *eucl-ordinal-utility consumption-set* $(Pr[i])$ $(U[i])$
assumes *firms-comp-owned*: $j \in firms \Longrightarrow (\sum i{\in}agents.\ \Theta[i,j]) = 1$
assumes *finite-nonepty-agents*: *finite agents* **and** $agents \neq \{\}$

sublocale *pre-arrow-debreu-model* $\subseteq$ *pareto-ordering agents U*
  .

context *pre-arrow-debreu-model*
begin

No restrictions on consumption set needed

lemma *all-larger-zero-in-csset*: $\forall x.\ x \in$ *consumption-set*
  using *cons-set-props pre-arrow-debreu-consumption-set-def* **by** *blast*

context
begin

Calculate wealth of individual i in context of Private Ownership economy.

private abbreviation *poe-wealth*
  where
    $\mathit{poe\text{-}wealth}\ P\ i\ Y \equiv P \cdot \mathcal{E}[i] + (\sum j{\in}\mathit{firms}.\ \Theta[i,j] *_R (P \cdot Y\, j))$

8.1 Feasiblity

private abbreviation *feasible*
  where
    feasible X Y $\equiv$ *feasible-private-ownership agents firms* $\mathcal{E}$ *consumption-set production-sets X Y*

private abbreviation *calculate-value*
  where
    calculate-value P x $\equiv P \cdot x$

8.2 Profit maximisation

In a production economy we need to specify profit maximisation.

definition *profit-maximisation*
  where
    profit-maximisation P S = *arg-max-set* $(\lambda x.\ P \cdot x)$ *S*

8.3 Competitive Equilibirium

Competitive equilibrium in context of production economy with private ownership. This includes the profit maximisation condition.

definition *competitive-equilibrium*
  where
    competitive-equilibrium P X Y $\longleftrightarrow$ *feasible X Y* $\wedge$
    $(\forall j \in \mathit{firms}.\ (Y\, j) \in \mathit{profit\text{-}maximisation}\ P\ (\mathit{production\text{-}sets}\ j)) \wedge$
    $(\forall i \in \mathit{agents}.\ (X\ i) \in \mathit{arg\text{-}max\text{-}set}\ U[i]\ (\mathit{budget\text{-}constraint}\ (\mathit{calculate\text{-}value}\ P)\ \mathit{consumption\text{-}set}\ (\mathit{poe\text{-}wealth}\ P\ i\ Y)))$

lemma *competitive-equilibriumD* [*dest*]:
  assumes *competitive-equilibrium P X Y*
  shows *feasible X Y* ∧
        (∀ *j* ∈ *firms*. (*Y j*) ∈ *profit-maximisation P* (*production-sets j*)) ∧
        (∀ *i* ∈ *agents*. (*X i*) ∈ *arg-max-set U*[*i*] (*budget-constraint* (*calculate-value P*) *consumption-set* (*poe-wealth P i Y*)))
  using *assms* **by** (*simp add*: *competitive-equilibrium-def*)

lemma *compet-max-profit*:
  assumes *j* ∈ *firms*
  assumes *competitive-equilibrium P X Y*
  shows *Y j* ∈ *profit-maximisation P* (*production-sets j*)
  using *assms*(*1*) *assms*(*2*) **by** *blast*

8.4 Pareto Optimality

definition *pareto-optimal*
  where
    pareto-optimal X Y ⟷
        (*feasible X Y* ∧
        (∄ *X′ Y′*. *feasible X′ Y′* ∧ *X′* ≻*Pareto X*))

lemma *pareto-optimalI*[*intro*]:
  assumes *feasible X Y*
    and ∄ *X′ Y′*. *feasible X′ Y′* ∧ *X′* ≻*Pareto X*
  shows *pareto-optimal X Y*
  using *pareto-optimal-def assms*(*1*) *assms*(*2*) **by** *blast*

lemma *pareto-optimalD*[*dest*]:
  assumes *pareto-optimal X Y*
  shows *feasible X Y* **and** ∄ *X′ Y′*. *feasible X′ Y′* ∧ *X′* ≻*Pareto X*
  using *pareto-optimal-def assms* **by** *auto*

lemma *util-fun-def-holds*: *i* ∈ *agents* ⟹ *x* ⪰[*Pr*[*i*]] *y* ⟷ *U*[*i*] *x* ≥ *U*[*i*] *y*
  by (*meson agent-props all-larger-zero-in-csset eucl-ordinal-utility-def ordinal-utility-def*)

lemma *base-pref-is-ord-eucl-rpr*: *i* ∈ *agents* ⟹ *rational-preference consumption-set Pr*[*i*]
  using *agent-props ord-eucl-utility-imp-rpr real-vector-rpr.have-rpr* **by** *blast*

lemma *prof-max-ge-all-in-pset*:
  assumes *j* ∈ *firms*
  assumes *Y j* ∈ *profit-maximisation P* (*production-sets j*)
  shows ∀ *y* ∈ *production-sets j*. *P* • *Y j* ≥ *P* • *y*
  using *all-leq assms*(*2*) *profit-maximisation-def* **by** *fastforce*

8.5 Lemmas for final result

Strictly preferred bundles are strictly more expensive.

lemma *all-prefered-are-more-expensive*:
assumes *i-agt*: $i \in$ *agents*
assumes *equil*: *competitive-equilibrium* $P\ \mathcal{X}\ \mathcal{Y}$
assumes $z \in$ *consumption-set*
assumes $(U\ i)\ z > (U\ i)\ (\mathcal{X}\ i)$
shows $z \cdot P > P \cdot (\mathcal{X}\ i)$
proof (*rule ccontr*)
assume *neg-as* : $\neg(z \cdot P > P \cdot (\mathcal{X}\ i))$
have *xp-leq* : $z \cdot P \leq P \cdot\ (\mathcal{X}\ i)$
using $\langle\neg z \cdot P > P \cdot (\mathcal{X}\ i)\rangle$ **by** *auto*
have *x-in-argmax*: $(\mathcal{X}\ i) \in$ *arg-max-set* $U[i]$ (*budget-constraint* (*calculate-value* P) *consumption-set* (*poe-wealth* $P\ i\ \mathcal{Y}$))
using *equil i-agt* **by** *blast*
hence *x-in*: $\mathcal{X}\ i \in$ (*budget-constraint* (*calculate-value* P) *consumption-set* (*poe-wealth* $P\ i\ \mathcal{Y}$))
using *argmax-sol-in-s* [*of* $(\mathcal{X}\ i)\ U[i]$ *budget-constraint* (*calculate-value* P) *consumption-set* (*poe-wealth* $P\ i\ \mathcal{Y}$)]
by *blast*
hence *z-in-budget*: $z \in$ (*budget-constraint* (*calculate-value* P) *consumption-set* (*poe-wealth* $P\ i\ \mathcal{Y}$))
proof −
have *z-leq-endow*: $P \cdot z \leq P \cdot (\mathcal{X}\ i)$
by (*metis xp-leq inner-commute*)
have *z-in-cons*: $z \in$ *consumption-set*
using *assms* **by** *auto*
then show *?thesis*
using *x-in budget-constraint-def z-leq-endow*
proof −
have $\forall r.\ P \cdot \mathcal{X}\ i \leq r \longrightarrow P \cdot z \leq r$
using *z-leq-endow* **by** *linarith*
then show *?thesis*
using *budget-constraint-def x-in z-in-cons*
by (*simp add*: *budget-constraint-def*)
qed
qed
have *nex-prop*: $\nexists e.\ e \in$ (*budget-constraint* (*calculate-value* P) *consumption-set* (*poe-wealth* $P\ i\ \mathcal{Y}$)) $\wedge$
$U[i]\ e > U[i]\ (\mathcal{X}\ i)$
using *no-better-in-s*[*of* $\mathcal{X}\ i\ U[i]$
budget-constraint (*calculate-value* P) *consumption-set* (*poe-wealth* $P\ i\ \mathcal{Y}$)]
x-in-argmax **by** *blast*
have $z \in$ *budget-constraint* (*calculate-value* P) *consumption-set* (*poe-wealth* $P\ i\ \mathcal{Y}$) $\wedge\ U[i]\ z > U[i]\ (\mathcal{X}\ i)$
using *assms z-in-budget* **by** *blast*
thus *False* **using** *nex-prop*
by *blast*
qed

Given local non-satiation, argmax will use the entire budget.

lemma *am-utilises-entire-bgt*:
  assumes *i-agts*: $i \in$ *agents*
  assumes *lns* : *local-nonsatiation consumption-set* $Pr[i]$
  assumes *argmax-sol* : $X \in$ *arg-max-set* $U[i]$ (*budget-constraint* (*calculate-value* P) *consumption-set* (*poe-wealth* P i Y))
  shows $P \cdot X = P \cdot \mathcal{E}[i] + (\sum j{\in}firms.\ \Theta[i,j] *_R (P \cdot Y\ j))$
proof −
  let *?wlt* $= P \cdot \mathcal{E}[i] + (\sum j{\in}firms.\ \Theta[i,j] *_R (P \cdot Y\ j))$
  let *?bc* = *budget-constraint* (*calculate-value* P) *consumption-set* (*poe-wealth* P i Y)
  have $X \in$ *budget-constraint* (*calculate-value* P) *consumption-set* (*poe-wealth* P i Y)
    using *argmax-sol-in-s* [*of* X $U[i]$ *?bc*] *argmax-sol* **by** *blast*
  hence *is-leq*: $X \cdot P \leq$ (*poe-wealth* P i Y)
    by (*metis* (*mono-tags*, *lifting*) *budget-constraint-def*
        inner-commute mem-Collect-eq)
  have *not-less*: $\neg X \cdot P <$ (*poe-wealth* P i Y)
  proof
    assume *neg*: $X \cdot P <$ (*poe-wealth* P i Y)
    have *bgt-leq*: $\forall x{\in}$ *?bc*. $U[i]\ X \geq U[i]\ x$
      using *leq-all-in-sol* [*of* X $U[i]$ *?bc*]
        all-leq [*of* X $U[i]$ *?bc*]
        argmax-sol **by** *blast*
    define *s-low* **where**
      s-low = $\{x\ .\ P \cdot x <$ *?wlt*$\}$
    have $\exists\, e > 0$. *ball* X $e \subseteq$ *s-low*
    proof −
      have *x-in-budget*: $P \cdot X <$ *?wlt*
        by (*metis inner-commute neg*)
      have *s-low-open*: *open s-low*
        using *open-halfspace-lt s-low-def* **by** *blast*
      then show *?thesis*
        using *s-low-open open-contains-ball-eq*
          s-low-def x-in-budget **by** *blast*
    qed
    obtain e **where**
      $e > 0$ **and** e: *ball* X $e \subseteq$ *s-low*
      using ‹$\exists\, e{>}0$. *ball* X $e \subseteq$ *s-low*› **by** *blast*
    obtain y **where**
      y-props: $y \in$ *ball* X e $y \succ[Pref\ i]\ X$
      using ‹$0 < e$› *all-larger-zero-in-csset lns* **by** *blast*
    have $y \in$ *budget-constraint* (*calculate-value* P) *consumption-set* (*poe-wealth* P i Y)
    proof −
      have $y \in$ *s-low*
        using ‹$y \in$ *ball* X e› e **by** *blast*
      then show *?thesis*
        by (*simp add*: *s-low-def all-larger-zero-in-csset*
            budget-constraint-def)

qed
then show *False*
using *bgt-leq i-agts y-props*(*2*) *util-fun-def-holds* **by** *blast*
qed
then show *?thesis*
by (*metis inner-commute is-leq less-eq-real-def*)
qed

corollary *x-equil-x-ext-budget*:
assumes *i-agt*: $i \in$ *agents*
assumes *lns* : *local-nonsatiation consumption-set Pr*$[i]$
assumes *equilibrium* : *competitive-equilibrium P X Y*
shows $P \cdot X\ i = P \cdot \mathcal{E}[i] + (\sum j{\in}firms.\ \Theta[i,j] *_R (P \cdot Y\ j))$
proof −
have $X\ i \in$ *arg-max-set* $U[i]$ (*budget-constraint* (*calculate-value P*) *consumption-set* (*poe-wealth P i Y*))
using *equilibrium i-agt* **by** *blast*
then show *?thesis*
using *am-utilises-entire-bgt i-agt lns* **by** *blast*
qed

lemma *same-price-in-argmax* :
assumes *i-agt*: $i \in$ *agents*
assumes *lns* : *local-nonsatiation consumption-set Pr*$[i]$
assumes $x \in$ *arg-max-set* ($U[i]$) (*budget-constraint* (*calculate-value P*) *consumption-set* (*poe-wealth P i Y*))
assumes $y \in$ *arg-max-set* ($U[i]$) (*budget-constraint* (*calculate-value P*) *consumption-set* (*poe-wealth P i Y*))
shows $(P \cdot x) = (P \cdot y)$
using *am-utilises-entire-bgt assms lns*
by (*metis* (*no-types*) *am-utilises-entire-bgt assms*(*3*) *assms*(*4*) *i-agt lns*)

Greater or equal utility implies greater or equal value.

lemma *utility-ge-price-ge* :
assumes *agts*: $i \in$ *agents*
assumes *lns* : *local-nonsatiation consumption-set Pr*$[i]$
assumes *equil*: *competitive-equilibrium P X Y*
assumes *geq*: $U[i]\ z \geq U[i]\ (X\ i)$
and $z \in$ *consumption-set*
shows $P \cdot z \geq P \cdot (X\ i)$
proof −
let *?bc* = (*budget-constraint* (*calculate-value P*) *consumption-set* (*poe-wealth P i Y*))
have *not-in* : $z \notin$ *arg-max-set* ($U[i]$) *?bc* $\Longrightarrow$
$P \cdot z > (P \cdot \mathcal{E}[i]) + (\sum j{\in}(firms).\ (\Theta[i,j] *_R (P \cdot Y\ j)))$
proof−
assume $z \notin$ *arg-max-set* ($U[i]$) *?bc*
moreover have $X\ i \in$ *arg-max-set* ($U[i]$) *?bc*

using *competitive-equilibriumD assms pareto-optimal-def*
by *auto*
ultimately have $z \notin$ *budget-constraint* (*calculate-value* P) *consumption-set* (*poe-wealth* P i Y)
by (*meson geq leq-all-in-sol*)
then show *?thesis*
using *budget-constraint-def assms*
by (*simp add*: *budget-constraint-def*)
qed
have *x-in-argmax*: $(X\ i) \in$ *arg-max-set* $U[i]$ *?bc*
using *agts equil* **by** *blast*
hence *x-in-budget*: $(X\ i) \in$ *?bc*
using *argmax-sol-in-s* [*of* $(X\ i)$ $U[i]$ *?bc*] **by** *blast*
have $U[i]\ z = U[i]\ (X\ i) \Longrightarrow P \cdot z \geq P \cdot (X\ i)$
proof(*rule contrapos-pp*)
assume *con-neg*: $\neg\ P \cdot z \geq P \cdot (X\ i)$
then have $P \cdot z < P \cdot (X\ i)$
by *linarith*
then have *z-in-argmax*: $z \in$ *arg-max-set* $U[i]$ *?bc*
proof $-$
have $P \cdot (X\ i) = P \cdot \mathcal{E}[i] + (\sum j{\in}\mathit{firms}.\ \Theta[i,j] *_R (P \cdot Y\ j))$
using *agts am-utilises-entire-bgt lns x-in-argmax* **by** *blast*
then show *?thesis*
by (*metis* (*no-types*) *con-neg less-eq-real-def not-in*)
qed
have *z-budget-utilisation*: $P \cdot z = P \cdot (X\ i)$
by (*metis* (*no-types*) *agts am-utilises-entire-bgt lns x-in-argmax z-in-argmax*)
have $P \cdot (X\ i) = P \cdot \mathcal{E}[i] + (\sum j{\in}\mathit{firms}.\ \Theta[i,j] *_R (P \cdot Y\ j))$
using *agts am-utilises-entire-bgt lns x-in-argmax* **by** *blast*
show $\neg\ U[i]\ z = U[i]\ (X\ i)$
using *z-budget-utilisation con-neg* **by** *linarith*
qed
thus *?thesis*
by (*metis* (*no-types*) *agts am-utilises-entire-bgt eq-iff eucl-less-le-not-le lns not-in x-in-argmax*)
qed

lemma *commutativity-sums-over-funs*:
fixes $X :: {'x}\ \mathit{set}$
fixes $Y :: {'y}\ \mathit{set}$
shows $(\sum i{\in}X.\ \sum j{\in}Y.\ (f\ i\ j *_R C \cdot g\ j)) = (\sum j{\in}Y. \sum i{\in}X.\ (f\ i\ j *_R C \cdot g\ j))$
using *Groups-Big.comm-monoid-add-class.sum.swap* **by** *auto*

lemma *assoc-fun-over-sum*:
fixes $X :: {'x}\ \mathit{set}$
fixes $Y :: {'y}\ \mathit{set}$
shows $(\sum j{\in}Y.\ \sum i{\in}X.\ f\ i\ j *_R C \cdot g\ j) = (\sum j{\in}Y.\ (\sum i{\in}X.\ f\ i\ j) *_R C \cdot g\ j)$

by (*simp add*: *inner-sum-left scaleR-left.sum*)

Walras' law in context of production economy with private ownership. That is, in an equilibrium demand equals supply.

lemma *walras-law*:
assumes $\bigwedge i.\ i{\in}agents \Longrightarrow local\text{-}nonsatiation\ consumption\text{-}set\ Pr[i]$
assumes $(\forall\, i \in agents.\ (X\ i) \in arg\text{-}max\text{-}set\ U[i]\ (budget\text{-}constraint\ (calculate\text{-}value\ P)\ consumption\text{-}set\ (poe\text{-}wealth\ P\ i\ Y)))$
shows $P \cdot (\sum i{\in}agents.\ (X\ i)) = P \cdot ((\sum i{\in}agents.\ \mathcal{E}[i]) + (\sum j{\in}firms.\ Y\ j))$
proof −
have *value-equal*: $P \cdot (\sum i{\in}agents.\ (X\ i)) = P \cdot (\sum i{\in}agents.\ \mathcal{E}[i]) + (\sum i{\in}agents.\ \sum f{\in}firms.\ \Theta[i,f] *_R (P \cdot Y\ f))$
proof −
have *all-exhaust-bgt*: $\forall\, i{\in}agents.\ P \cdot (X\ i) = P \cdot \mathcal{E}[i] + (\sum j{\in}firms.\ \Theta[i,j] *_R (P \cdot (Y\ j)))$
using *assms am-utilises-entire-bgt* **by** *blast*
then show *?thesis*
by (*simp add*:*all-exhaust-bgt inner-sum-right sum.distrib*)
qed
have *eq-1*: $(\sum i{\in}agents.\ \sum j{\in}firms.\ (\Theta[i,j] *_R P \cdot Y\ j)) = (\sum j{\in}firms.\ \sum i{\in}agents.\ (\Theta[i,j] *_R P \cdot Y\ j))$
using *commutativity-sums-over-funs* [*of* Θ *P Y firms agents*] **by** *blast*
hence *eq-2*: $P \cdot (\sum i{\in}agents.\ X\ i) = P \cdot (\sum i{\in}agents.\ \mathcal{E}[i]) + (\sum j{\in}firms.\ \sum i{\in}agents.\ \Theta[i,j] *_R P \cdot Y\ j)$
using *value-equal* **by** *auto*
also have *eq-3*: $... = P \cdot (\sum i{\in}agents.\ \mathcal{E}[i]) + (\sum j{\in}firms.\ (\sum i{\in}agents.\ \Theta[i,j]) *_R P \cdot Y\ j)$
using *assoc-fun-over-sum*[*of* Θ *P Y agents firms*] **by** *auto*
also have *eq-4*: $... = P \cdot (\sum i{\in}agents.\ \mathcal{E}[i]) + (\sum f{\in}firms.\ P \cdot Y\ f)$
using *firms-comp-owned* **by** *auto*
have *comp-wise-inner*: $P \cdot (\sum i{\in}agents.\ X\ i) - (P \cdot (\sum i{\in}agents.\ \mathcal{E}[i])) - (\sum f{\in}firms.\ P \cdot Y\ f) = 0$
using *eq-1 eq-2 eq-3 eq-4* **by** *linarith*
then show *?thesis*
by (*simp add*: *inner-right-distrib inner-sum-right*)
qed

lemma *walras-law-in-compeq*:
assumes $\bigwedge i.\ i{\in}agents \Longrightarrow local\text{-}nonsatiation\ consumption\text{-}set\ Pr[i]$
assumes *competitive-equilibrium P X Y*
shows $P \cdot ((\sum i{\in}agents.\ (X\ i)) - (\sum i{\in}agents.\ \mathcal{E}[i]) - (\sum j{\in}firms.\ Y\ j)) = 0$
proof−
have $P \cdot (\sum i{\in}agents.\ (X\ i)) = P \cdot ((\sum i{\in}agents.\ \mathcal{E}[i]) + (\sum j{\in}firms.\ Y\ j))$
using *assms*(*1*) *assms*(*2*) *walras-law* **by** *auto*
then show *?thesis*
by (*simp add*: *inner-diff-right inner-right-distrib*)
qed

8.6 First Welfare Theorem

Proof of First Welfare Theorem in context of production economy with private ownership.

theorem *first-welfare-theorem-priv-own*:
  assumes $\bigwedge i.\ i \in agents \Longrightarrow$ *local-nonsatiation consumption-set* $Pr[i]$
    and *Price* > 0
  assumes *competitive-equilibrium Price* $\mathcal{X}$ $\mathcal{Y}$
  shows *pareto-optimal* $\mathcal{X}$ $\mathcal{Y}$
proof (*rule ccontr*)
  assume *neg-as*: $\neg$ *pareto-optimal* $\mathcal{X}$ $\mathcal{Y}$
  have *equili-feasible* : *feasible* $\mathcal{X}$ $\mathcal{Y}$
    using *assms* **by** (*simp add*: *competitive-equilibrium-def*)
  obtain X' Y' **where**
    xprime-pareto: *feasible* X' Y' $\wedge$
      $(\forall\, i \in agents.\ U[i]\ (X'\ i) \geq U[i]\ (\mathcal{X}\ i)) \wedge$
      $(\exists\, i \in agents.\ U[i]\ (X'\ i) > U[i]\ (\mathcal{X}\ i))$
    using *equili-feasible pareto-optimal-def*
      pareto-dominating-def neg-as **by** *auto*
  have *is-feasible*: *feasible* X' Y'
    using *xprime-pareto* **by** *blast*
  have *xprime-leq-y*: $\forall\, i \in agents.\ (Price \cdot (X'\ i) \geq$
    $(Price \cdot \mathcal{E}[i]) + (\sum j{\in}(firms).\ \Theta[i,j] *_R (Price \cdot \mathcal{Y}\ j)))$
  proof
    fix i
    assume *as*: $i \in agents$
    have *xprime-cons*: $X'\ i \in$ *consumption-set*
      by (*simp add*: *all-larger-zero-in-csset*)
    have *x-leq-xprime*: $U[i]\ (X'\ i) \geq U[i]\ (\mathcal{X}\ i)$
      using ‹$i \in agents$› *xprime-pareto* **by** *blast*
    have *lns-pref*: *local-nonsatiation consumption-set* $Pr[i]$
      using *as assms* **by** *blast*
    hence *xprime-ge-x*: $Price \cdot (X'\ i) \geq Price \cdot (\mathcal{X}\ i)$
      using *x-leq-xprime xprime-cons as assms utility-ge-price-ge* **by** *blast*
    then show $Price \cdot (X'\ i) \geq (Price \cdot \mathcal{E}[i]) + (\sum j{\in}(firms).\ \Theta[i,j] *_R (Price \cdot \mathcal{Y}\ j))$
      using *xprime-ge-x* ‹$i \in agents$› *lns-pref assms x-equil-x-ext-budget* **by** *fastforce*
  qed
  have *ex-greater-value* : $\exists\, i \in agents.\ Price \cdot (X'\ i) > Price \cdot (\mathcal{X}\ i)$
  proof(*rule ccontr*)
    assume *cpos* : $\neg(\exists\, i \in agents.\ Price \cdot (X'\ i) > Price \cdot (\mathcal{X}\ i))$
    obtain i **where**
      obt-witness : $i \in agents\ (U[i])\ (X'\ i) > U[i]\ (\mathcal{X}\ i)$
      using *xprime-pareto* **by** *blast*
    show *False*
      by (*metis cpos all-larger-zero-in-csset all-prefered-are-more-expensive*
        inner-commute obt-witness(*1*) *obt-witness*(*2*) *assms*(*3*))
  qed
  have *dom-g* : $Price \cdot (\sum i{\in}agents.\ X'\ i) > Price \cdot (\sum i{\in}agents.\ (\mathcal{X}\ i))$ (**is** - >

- $\cdot$ *?x-sum*)
  proof−
    have $(\sum i{\in}agents.\ Price \cdot X'\ i) > (\sum i{\in}agents.\ Price \cdot (\mathcal{X}\ i))$
      by (*metis* (*mono-tags*, *lifting*) *xprime-leq-y assms*(*1*,*3*) *ex-greater-value finite-nonepty-agents sum-strict-mono-ex1 x-equil-x-ext-budget*)
    thus $Price \cdot (\sum i{\in}agents.\ X'\ i) > Price \cdot ?x\text{-}sum$
      by (*simp add*: *inner-sum-right*)
  qed
  let $?y\text{-}sum = (\sum j{\in}firms.\ \mathcal{Y}\ j)$
  have *equili-walras-law*: $Price \cdot ?x\text{-}sum =$
  $(\sum i{\in}agents.\ Price \cdot \mathcal{E}[i] + (\sum j{\in}firms.\ \Theta[i,j] *_R (Price \cdot \mathcal{Y}\ j)))$ (**is** - = *?ws*)
  proof−
    have $\forall i{\in}agents.\ Price \cdot \mathcal{X}\ i = Price \cdot \mathcal{E}[i] + (\sum j{\in}firms.\ \Theta[i,j] *_R (Price \cdot \mathcal{Y}\ j))$
      by (*metis* (*no-types*, *lifting*) *assms*(*1*,*3*) *x-equil-x-ext-budget*)
    then show *?thesis*
      by (*simp add*: *inner-sum-right*)
  qed
  also have *remove-firm-pct*: $... = Price \cdot (\sum i{\in}agents.\ \mathcal{E}[i]) + (Price \cdot ?y\text{-}sum)$
  proof−
    have *equals-inner-price*: $0 = Price \cdot (?x\text{-}sum - ((\sum i{\in}agents.\ \mathcal{E}\ i) + ?y\text{-}sum))$
      by (*metis* (*no-types*) *diff-diff-add assms*(*1*,*3*) *walras-law-in-compeq*)
    have $Price \cdot ?x\text{-}sum = Price \cdot ((\sum i{\in}agents.\ \mathcal{E}\ i) + ?y\text{-}sum)$
      by (*metis* (*no-types*) *equals-inner-price inner-diff-right right-minus-eq*)
    then show *?thesis*
      by (*simp add*: *equili-walras-law inner-right-distrib*)
  qed
  have *xp-l-yp*: $(\sum i{\in}agents.\ X'\ i) \le (\sum i{\in}agents.\ \mathcal{E}[i]) + (\sum f{\in}firms.\ Y'\ f)$
    using *is-feasible feasible-private-ownership-def* **by** *blast*
  hence *yprime-sgr-y*: $Price \cdot (\sum i{\in}agents.\ \mathcal{E}[i]) + Price \cdot (\sum f{\in}firms.\ Y'\ f) > ?ws$
  proof −
    have $Price \cdot (\sum i{\in}agents.\ X'\ i) \le Price \cdot ((\sum i{\in}agents.\ \mathcal{E}[i]) + (\sum j{\in}firms.\ Y'\ j))$
      by (*metis xp-l-yp atLeastAtMost-iff inner-commute interval-inner-leI*(*2*) *less-imp-le order-refl assms*(*2*))
    hence $?ws < Price \cdot ((\sum i{\in}agents.\ \mathcal{E}\ i) + (\sum j{\in}firms.\ Y'\ j))$
      using *dom-g equili-walras-law* **by** *linarith*
    then show *?thesis*
      by (*simp add*: *inner-right-distrib*)
  qed
  have *Y-is-optimum*: $\forall j{\in}firms.\ \forall y \in production\text{-}sets\ j.\ Price \cdot \mathcal{Y}\ j \ge Price \cdot y$
    using *assms prof-max-ge-all-in-pset* **by** *blast*
  have *yprime-in-prod-set*: $\forall j \in firms.\ Y'\ j \in production\text{-}sets\ j$
    using *xprime-pareto* **by** (*simp add*: *feasible-private-ownership-def*)
  hence $\forall j \in firms.\ \forall y \in production\text{-}sets\ j.\ Price \cdot \mathcal{Y}\ j \ge Price \cdot y$
    using *Y-is-optimum* **by** *blast*
  hence *Y-ge-yprime*: $\forall j \in firms.\ Price \cdot \mathcal{Y}\ j \ge Price \cdot Y'\ j$
    using *yprime-in-prod-set* **by** *blast*

hence *yprime-p-leq-Y*: *Price* $\cdot$ ($\sum$*f*∈*firms*. *Y′ f*) ≤ *Price* $\cdot$ *?y-sum*
  by (*simp add*: *Y-ge-yprime inner-sum-right sum-mono*)
  then show *False*
    using *remove-firm-pct yprime-sgr-y* **by** *linarith*
qed

Equilibrium cannot be Pareto dominated.

lemma *equilibria-dom-eachother*:
  assumes $\bigwedge$*i*. *i* ∈ *agents* ⟹ *local-nonsatiation consumption-set Pr*[*i*]
    and *Price* > *0*
  assumes *equil*: *competitive-equilibrium Price* $\mathcal{X}$ $\mathcal{Y}$
  shows ∄*X′ Y′*. *competitive-equilibrium P X′ Y′* ∧ *X′* ≻*Pareto* $\mathcal{X}$
proof −
  have *pareto-optimal* $\mathcal{X}$ $\mathcal{Y}$
    by (*meson assms equil first-welfare-theorem-priv-own*)
  hence ∄*X′ Y′*. *feasible X′ Y′* ∧ *X′* ≻*Pareto* $\mathcal{X}$
    using *pareto-optimal-def* **by** *blast*
  thus *?thesis*
    by *auto*
qed

Using monotonicity instead of local non-satiation proves the First Welfare Theorem.

corollary *first-welfare-thm-monotone*:
  assumes ∀ *M* ∈ *carrier*. (∀ *x* > *M*. *x* ∈ *carrier*)
  assumes $\bigwedge$*i*. *i* ∈ *agents* ⟹ *monotone-preference consumption-set Pr*[*i*]
    and *Price* > *0*
  assumes *competitive-equilibrium Price* $\mathcal{X}$ $\mathcal{Y}$
  shows *pareto-optimal* $\mathcal{X}$ $\mathcal{Y}$
  using *all-larger-zero-in-csset assms*(*2*) *assms*(*3*) *assms*(*4*)
    first-welfare-theorem-priv-own unbounded-above-mono-imp-lns **by** *blast*

end

end

end

9 Arrow-Debreu model

theory *Arrow-Debreu-Model*
  imports
    ../Preferences
    ../Preferences
    ../Utility-Functions
    ../Argmax
    Consumers
    Common

begin

locale *pre-arrow-debreu-model* =
  fixes *production-sets* :: $'f \Rightarrow ('a$::*ordered-euclidean-space*) *set*
  fixes *consumption-set* :: $'a$ *set*
  fixes *agents* :: $'i$ *set*
  fixes *firms* :: $'f$ *set*
  fixes $\mathcal{E}$ :: $'i \Rightarrow 'a$ ($\mathcal{E}$[-])
  fixes *Pref* :: $'i \Rightarrow 'a$ *relation* (*Pr*[-])
  fixes U :: $'i \Rightarrow 'a \Rightarrow$ *real* (U[-])
  fixes Θ :: $'i \Rightarrow 'f \Rightarrow$ *real* (Θ[-,-])
  assumes *cons-set-props*: *arrow-debreu-consum-set consumption-set*
  assumes *agent-props*: $i \in$ *agents* $\Longrightarrow$ *eucl-ordinal-utility consumption-set* (*Pr*[i]) (U[i])
  assumes *firms-comp-owned*: $j \in$ *firms* $\Longrightarrow$ ($\sum i{\in}agents.\ \Theta[i,j]$) = *1*
  assumes *finite-nonepty-agents*: *finite agents* **and** *agents* $\neq$ {}

sublocale *pre-arrow-debreu-model* $\subseteq$ *pareto-ordering agents U*
  .

context *pre-arrow-debreu-model*
begin

Calculate wealth of individual i in context of Private Ownership economy.

context
begin

private abbreviation *poe-wealth*
  where
    poe-wealth $P\ i\ Y \equiv P \cdot \mathcal{E}[i] + (\sum j{\in}firms.\ \Theta[i,j] *_R (P \cdot Y\ j))$

9.1 Feasiblity

private abbreviation *feasible*
  where
    feasible X Y $\equiv$ *feasible-private-ownership agents firms* $\mathcal{E}$ *consumption-set production-sets* X Y

private abbreviation *calculate-value*
  where
    calculate-value $P\ x \equiv P \cdot x$

9.2 Profit maximisation

In a production economy (which this is) we need to specify profit maximisation.

definition *profit-maximisation*

where
profit-maximisation P S = *arg-max-set* $(\lambda x.\ P \cdot x)$ S

9.3 Competitive Equilibirium

Competitive equilibrium in context of production economy with private ownership. This includes the profit maximisation condition.

definition *competitive-equilibrium*
where
competitive-equilibrium P X Y $\longleftrightarrow$ *feasible* X Y $\wedge$
$(\forall j \in$ *firms*. $(Y\ j) \in$ *profit-maximisation* P (*production-sets* j)) $\wedge$
$(\forall i \in$ *agents*. $(X\ i) \in$ *arg-max-set* $U[i]$ (*budget-constraint* (*calculate-value* P) *consumption-set* (*poe-wealth* P i Y)))

lemma *competitive-equilibriumD* [*dest*]:
assumes *competitive-equilibrium* P X Y
shows *feasible* X Y $\wedge$
$(\forall j \in$ *firms*. $(Y\ j) \in$ *profit-maximisation* P (*production-sets* j)) $\wedge$
$(\forall i \in$ *agents*. $(X\ i) \in$ *arg-max-set* $U[i]$ (*budget-constraint* (*calculate-value* P) *consumption-set* (*poe-wealth* P i Y)))
using *assms* **by** (*simp add*: *competitive-equilibrium-def*)

lemma *compet-max-profit*:
assumes $j \in$ *firms*
assumes *competitive-equilibrium* P X Y
shows $Y\ j \in$ *profit-maximisation* P (*production-sets* j)
using *assms*(*1*) *assms*(*2*) **by** *blast*

9.4 Pareto Optimality

definition *pareto-optimal*
where
pareto-optimal X Y $\longleftrightarrow$
(*feasible* X Y $\wedge$
$(\nexists X'\ Y'.$ *feasible* X' Y' $\wedge$ $X' \succ$*Pareto* X))

lemma *pareto-optimalI*[*intro*]:
assumes *feasible* X Y
and $\nexists X'\ Y'.$ *feasible* X' Y' $\wedge$ $X' \succ$*Pareto* X
shows *pareto-optimal* X Y
using *pareto-optimal-def* *assms*(*1*) *assms*(*2*) **by** *blast*

lemma *pareto-optimalD*[*dest*]:
assumes *pareto-optimal* X Y
shows *feasible* X Y **and** $\nexists X'\ Y'.$ *feasible* X' Y' $\wedge$ $X' \succ$*Pareto* X
using *pareto-optimal-def* *assms* **by** *auto*

lemma *util-fun-def-holds*:
assumes $i \in$ *agents*

and $x \in$ *consumption-set*
and $y \in$ *consumption-set*
shows $x \succeq[Pr[i]]\ y \longleftrightarrow U[i]\ x \geq U[i]\ y$
proof
assume $x \succeq[Pr[i]]\ y$
show $U[i]\ x \geq U[i]\ y$
by (*meson* ‹$x \succeq[Pr[i]]\ y$› *agent-props assms eucl-ordinal-utility-def ordinal-utility-def*)
next
assume $U[i]\ x \geq U[i]\ y$
have *eucl-ordinal-utility consumption-set* ($Pr[i]$) ($U[i]$)
by (*simp add*: *agent-props assms*)
then show $x \succeq[Pr[i]]\ y$
by (*meson* ‹$U[i]\ y \leq U[i]\ x$› *assms*(*2*) *assms*(*3*) *eucl-ordinal-utility-def ordinal-utility.util-def-conf*)
qed

lemma *base-pref-is-ord-eucl-rpr*: $i \in$ *agents* $\Longrightarrow$ *rational-preference consumption-set* $Pr[i]$
using *agent-props ord-eucl-utility-imp-rpr real-vector-rpr.have-rpr* **by** *blast*

lemma *prof-max-ge-all-in-pset*:
assumes $j \in$ *firms*
assumes $Y\ j \in$ *profit-maximisation* P (*production-sets* j)
shows $\forall\, y \in$ *production-sets* j. $P \cdot Y\ j \geq P \cdot y$
using *all-leq assms*(*2*) *profit-maximisation-def* **by** *fastforce*

9.5 Lemmas for final result

Strictly preferred bundles are strictly more expensive.

lemma *all-prefered-are-more-expensive*:
assumes *i-agt*: $i \in$ *agents*
assumes *equil*: *competitive-equilibrium* $P\ \mathcal{X}\ \mathcal{Y}$
assumes $z \in$ *consumption-set*
assumes $(U\ i)\ z > (U\ i)\ (\mathcal{X}\ i)$
shows $z \cdot P > P \cdot (\mathcal{X}\ i)$
proof (*rule ccontr*)
assume *neg-as* : $\neg(z \cdot P > P \cdot (\mathcal{X}\ i))$
have *xp-leq* : $z \cdot P \leq P \cdot (\mathcal{X}\ i)$
using ‹$\neg z \cdot P > P \cdot (\mathcal{X}\ i)$› **by** *auto*
have *x-in-argmax*: $(\mathcal{X}\ i) \in$ *arg-max-set* $U[i]$ (*budget-constraint* (*calculate-value* P) *consumption-set* (*poe-wealth* $P\ i\ \mathcal{Y}$))
using *equil i-agt* **by** *blast*
hence *x-in*: $\mathcal{X}\ i \in$ (*budget-constraint* (*calculate-value* P) *consumption-set* (*poe-wealth* $P\ i\ \mathcal{Y}$))
using *argmax-sol-in-s* [*of* $(\mathcal{X}\ i)$ $U[i]$ *budget-constraint* (*calculate-value* P) *consumption-set* (*poe-wealth* $P\ i\ \mathcal{Y}$)]
by *blast*
hence *z-in-budget*: $z \in$ (*budget-constraint* (*calculate-value* P) *consumption-set* (*poe-wealth* $P\ i\ \mathcal{Y}$))
proof −

have *z-leq-endow*: $P \cdot z \le P \cdot (\mathcal{X}\ i)$
by (*metis xp-leq inner-commute*)
have *z-in-cons*: $z \in$ *consumption-set*
using *assms* **by** *auto*
then show *?thesis*
using *x-in budget-constraint-def z-leq-endow*
proof −
have $\forall r.\ \ P \cdot \mathcal{X}\ i \le r \longrightarrow P \cdot z \le r$
using *z-leq-endow* **by** *linarith*
then show *?thesis*
using *budget-constraint-def x-in z-in-cons*
by (*simp add*: *budget-constraint-def*)
qed
qed
have *nex-prop*: $\nexists e.\ e \in$ (*budget-constraint* (*calculate-value* P) *consumption-set* (*poe-wealth* $P\ i\ \mathcal{Y}$)) $\wedge$
$U[i]\ e > U[i]\ (\mathcal{X}\ i)$
using *no-better-in-s*[*of* $\mathcal{X}\ i\ U[i]$
budget-constraint (*calculate-value* P) *consumption-set* (*poe-wealth* $P\ i\ \mathcal{Y}$)]
x-in-argmax **by** *blast*
have $z \in$ *budget-constraint* (*calculate-value* P) *consumption-set* (*poe-wealth* $P\ i\ \mathcal{Y}$) $\wedge\ U[i]\ z > U[i]\ (\mathcal{X}\ i)$
using *assms z-in-budget* **by** *blast*
thus *False* **using** *nex-prop*
by *blast*
qed

Given local non-satiation, argmax will use the entire budget.

lemma *am-utilises-entire-bgt*:
assumes *i-agts*: $i \in$ *agents*
assumes *lns* : *local-nonsatiation consumption-set* $Pr[i]$
assumes *argmax-sol* : $X \in$ *arg-max-set* $U[i]$ (*budget-constraint* (*calculate-value* P) *consumption-set* (*poe-wealth* $P\ i\ Y$))
shows $P \cdot X = P \cdot \mathcal{E}[i] + (\sum j{\in}firms.\ \Theta[i,j] *_R (P \cdot Y\ j))$
proof −
let $?wlt = P \cdot \mathcal{E}[i] + (\sum j{\in}firms.\ \Theta[i,j] *_R (P \cdot Y\ j))$
let *?bc* = *budget-constraint* (*calculate-value* P) *consumption-set* (*poe-wealth* $P\ i\ Y$)
have *xin*: $X \in$ *budget-constraint* (*calculate-value* P) *consumption-set* (*poe-wealth* $P\ i\ Y$)
using *argmax-sol-in-s* [*of* $X\ U[i]$ *?bc*] *argmax-sol* **by** *blast*
hence *is-leq*: $X \cdot P \le$ (*poe-wealth* $P\ i\ Y$)
by (*metis* (*mono-tags*, *lifting*) *budget-constraint-def*
inner-commute mem-Collect-eq)
have *not-less*: $\neg X \cdot P <$ (*poe-wealth* $P\ i\ Y$)
proof
assume *neg*: $X \cdot P <$ (*poe-wealth* $P\ i\ Y$)
have *bgt-leq*: $\forall x{\in}$ *?bc*. $U[i]\ X \ge U[i]\ x$
using *leq-all-in-sol* [*of* $X\ U[i]$ *?bc*]

all-leq [*of X U*[*i*] *?bc*]
argmax-sol **by** *blast*
define *s-low* **where**
s-low = {*x* . *P* · *x* < *?wlt*}
have ∃ *e* > *0*. *ball X e* ⊆ *s-low*
proof −
have *x-in-budget*: *P* · *X* < *?wlt*
by (*metis inner-commute neg*)
have *s-low-open*: *open s-low*
using *open-halfspace-lt s-low-def* **by** *blast*
then show *?thesis*
using *s-low-open open-contains-ball-eq*
s-low-def x-in-budget **by** *blast*
qed
obtain *e* **where**
e > *0* **and** *e*: *ball X e* ⊆ *s-low*
using ‹∃ *e*>*0*. *ball X e* ⊆ *s-low*› **by** *blast*
obtain *y* **where**
y-props: *y* ∈ *ball X e y* ≻[*Pref i*] *X*
using ‹*0* < *e*› *xin assms*(*2*) *budget-constraint-def*
by (*metis* (*no-types*, *lifting*) *lns-alt-def2 mem-Collect-eq*)
have *y* ∈ *budget-constraint* (*calculate-value P*) *consumption-set* (*poe-wealth P i Y*)
proof −
have *y* ∈ *s-low*
using ‹*y* ∈ *ball X e*› *e* **by** *blast*
moreover have *y* ∈ *consumption-set*
by (*meson agent-props eucl-ordinal-utility-def i-agts ordinal-utility-def y-props*(*2*))
moreover have *P* · *y* ≤ *poe-wealth P i Y*
using *calculation*(*1*) *s-low-def* **by** *auto*
ultimately show *?thesis*
by (*simp add*: *budget-constraint-def*)
qed
then show *False*
using *bgt-leq i-agts y-props*(*2*) *util-fun-def-holds xin budget-constraint-def*
by (*metis* (*no-types*, *lifting*) *mem-Collect-eq*)
qed
then show *?thesis*
by (*metis inner-commute is-leq*
less-eq-real-def)
qed

corollary *x-equil-x-ext-budget*:
assumes *i-agt*: *i* ∈ *agents*
assumes *lns* : *local-nonsatiation consumption-set Pr*[*i*]
assumes *equilibrium* : *competitive-equilibrium P X Y*
shows *P* · *X i* = *P* · $\mathcal{E}$[*i*] + ($\sum$ *j*∈*firms*. Θ[*i*,*j*] $*_R$ (*P* · *Y j*))
proof −

```
 have X i ∈ arg-max-set U[i] (budget-constraint (calculate-value P) consumption-set
(poe-wealth P i Y))
    using equilibrium i-agt by blast
  then show ?thesis
    using am-utilises-entire-bgt i-agt lns by blast
qed

lemma same-price-in-argmax :
  assumes i-agt: i ∈ agents
  assumes lns : local-nonsatiation consumption-set Pr[i]
 assumes x ∈ arg-max-set (U[i]) (budget-constraint (calculate-value P) consumption-set
(poe-wealth P i Y))
 assumes y ∈ arg-max-set (U[i]) (budget-constraint (calculate-value P) consumption-set
(poe-wealth P i Y))
  shows (P · x) = (P · y)
  using am-utilises-entire-bgt assms lns
  by (metis (no-types) am-utilises-entire-bgt assms(3) assms(4) i-agt lns)
```

Greater or equal utility implies greater or equal value.

```
lemma utility-ge-price-ge :
  assumes agts: i ∈ agents
  assumes lns : local-nonsatiation consumption-set Pr[i]
  assumes equil: competitive-equilibrium P X Y
  assumes geq: U[i] z ≥ U[i] (X i)
    and z ∈ consumption-set
  shows P · z ≥ P · (X i)
proof −
  let ?bc = (budget-constraint (calculate-value P) consumption-set (poe-wealth P i
Y))
  have not-in : z ∉ arg-max-set (U[i]) ?bc ⟹
    P · z > (P · ℰ[i]) + (∑j∈(firms). (Θ[i,j] *R (P · Y j)))
  proof−
    assume z ∉ arg-max-set (U[i]) ?bc
    moreover have X i ∈ arg-max-set (U[i]) ?bc
      using competitive-equilibriumD assms pareto-optimal-def
      by auto
     ultimately have z ∉ budget-constraint (calculate-value P) consumption-set
(poe-wealth P i Y)
      by (meson geq leq-all-in-sol)
    then show ?thesis
      using budget-constraint-def assms
      by (simp add: budget-constraint-def)
  qed
  have x-in-argmax: (X i) ∈ arg-max-set U[i] ?bc
    using agts equil by blast
  hence x-in-budget: (X i) ∈ ?bc
    using argmax-sol-in-s [of (X i) U[i] ?bc] by blast
  have U[i] z = U[i] (X i) ⟹ P · z ≥ P · (X i)
  proof(rule contrapos-pp)
```

assume *con-neg*: $\neg$ $P \cdot z \geq P \cdot (X\ i)$
then have $P \cdot z < P \cdot (X\ i)$
by *linarith*
then have *z-in-argmax*: $z \in$ *arg-max-set* $U[i]$ *?bc*
proof –
have $P \cdot (X\ i) = P \cdot \mathcal{E}[i] + (\sum j{\in}firms.\ \Theta[i,j] *_R (P \cdot Y\ j))$
using *agts am-utilises-entire-bgt lns x-in-argmax* **by** *blast*
then show *?thesis*
by (*metis* (*no-types*) *con-neg less-eq-real-def not-in*)
qed
have *z-budget-utilisation*: $P \cdot z = P \cdot (X\ i)$
by (*metis* (*no-types*) *agts am-utilises-entire-bgt lns x-in-argmax z-in-argmax*)
have $P \cdot (X\ i) = P \cdot \mathcal{E}[i] + (\sum j{\in}firms.\ \Theta[i,j] *_R (P \cdot Y\ j))$
using *agts am-utilises-entire-bgt lns x-in-argmax* **by** *blast*
show $\neg$ $U[i]\ z = U[i]\ (X\ i)$
using *z-budget-utilisation con-neg* **by** *linarith*
qed
thus *?thesis*
by (*metis* (*no-types*) *agts am-utilises-entire-bgt eq-iff eucl-less-le-not-le lns not-in x-in-argmax*)
qed

lemma *commutativity-sums-over-funs*:
fixes X :: *'x set*
fixes Y :: *'y set*
shows $(\sum i{\in}X.\ \sum j{\in}Y.\ (f\ i\ j *_R C \cdot g\ j)) = (\sum j{\in}Y.\sum i{\in}X.\ (f\ i\ j *_R C \cdot g\ j))$
using *Groups-Big.comm-monoid-add-class.sum.swap* **by** *auto*

lemma *assoc-fun-over-sum*:
fixes X :: *'x set*
fixes Y :: *'y set*
shows $(\sum j{\in}Y.\ \sum i{\in}X.\ f\ i\ j *_R C \cdot g\ j) = (\sum j{\in}Y.\ (\sum i{\in}X.\ f\ i\ j) *_R C \cdot g\ j)$
by (*simp add*: *inner-sum-left scaleR-left.sum*)

Walras' law in context of production economy with private ownership. That is, in an equilibrium demand equals supply.

lemma *walras-law*:
assumes $\bigwedge i.\ i{\in}agents \Longrightarrow$ *local-nonsatiation consumption-set* $Pr[i]$
assumes $(\forall i \in agents.\ (X\ i) \in$ *arg-max-set* $U[i]$ (*budget-constraint* (*calculate-value* P) *consumption-set* (*poe-wealth* $P\ i\ Y$)))
shows $P \cdot (\sum i{\in}agents.\ (X\ i)) = P \cdot ((\sum i{\in}agents.\ \mathcal{E}[i]) + (\sum j{\in}firms.\ Y\ j))$
proof –
have *value-equal*: $P \cdot (\sum i{\in}agents.\ (X\ i)) = P \cdot (\sum i{\in}agents.\ \mathcal{E}[i]) + (\sum i{\in}agents.\ \sum f{\in}firms.\ \Theta[i,f] *_R (P \cdot Y\ f))$
proof –
have *all-exhaust-bgt*: $\forall i{\in}agents.\ P \cdot (X\ i) = P \cdot \mathcal{E}[i] + (\sum j{\in}firms.\ \Theta[i,j] *_R (P \cdot (Y\ j)))$

```
    using assms am-utilises-entire-bgt by blast
  then show ?thesis
    by (simp add:all-exhaust-bgt inner-sum-right sum.distrib)
 qed
 have eq-1: (∑ i∈agents. ∑ j∈firms. (Θ[i,j] *R P · Y j)) = (∑ j∈firms. ∑ i∈agents.
(Θ[i,j] *R P · Y j))
   using commutativity-sums-over-funs [of Θ P Y firms agents] by blast
  hence eq-2: P · (∑ i∈agents. X i) = P · (∑ i∈agents. ℰ[i]) + (∑ j∈firms.
∑ i∈agents. Θ[i,j] *R P · Y j)
   using value-equal by auto
 also have eq-3: ...= P · (∑ i∈agents. ℰ[i]) + (∑ j∈firms. (∑ i∈agents. Θ[i,j])
*R P ·  Y j)
   using assoc-fun-over-sum[of Θ P Y agents firms] by auto
 also have eq-4: ... = P · (∑ i∈agents. ℰ[i]) + (∑ f∈firms. P ·  Y f)
   using firms-comp-owned by auto
  have comp-wise-inner: P ·  (∑ i∈agents. X i) − (P · (∑ i∈agents. ℰ[i])) −
(∑ f∈firms. P · Y f) = 0
   using eq-1 eq-2 eq-3 eq-4 by linarith
 then show ?thesis
   by (simp add: inner-right-distrib inner-sum-right)
qed

lemma walras-law-in-compeq:
 assumes ⋀i. i∈agents ⟹ local-nonsatiation consumption-set Pr[i]
 assumes competitive-equilibrium P X Y
 shows P · ((∑ i∈agents. (X i)) − (∑ i∈agents. ℰ[i]) − (∑ j∈firms. Y j)) = 0
proof−
 have P · (∑ i∈agents. (X i)) = P · ((∑ i∈agents. ℰ[i]) + (∑ j∈firms. Y j))
   using assms(1) assms(2) walras-law by auto
 then show ?thesis
   by (simp add: inner-diff-right inner-right-distrib)
qed
```

9.6 First Welfare Theorem

Proof of First Welfare Theorem in context of production economy with private ownership.

```
theorem first-welfare-theorem-priv-own:
 assumes ⋀i. i ∈ agents ⟹ local-nonsatiation consumption-set Pr[i]
   and Price > 0
 assumes competitive-equilibrium Price 𝒳 𝒴
 shows pareto-optimal 𝒳 𝒴
proof (rule ccontr)
 assume neg-as: ¬ pareto-optimal 𝒳 𝒴
 have equili-feasible : feasible 𝒳 𝒴
   using  assms by (simp add: competitive-equilibrium-def)
 obtain X′ Y′ where
   xprime-pareto: feasible X′ Y′ ∧
     (∀ i ∈ agents. U[i] (X′ i) ≥ U[i] (𝒳 i)) ∧
```

$(\exists\, i \in agents.\ U[i]\ (X'\ i) > U[i]\ (\mathcal{X}\ i))$
using *equili-feasible pareto-optimal-def*
pareto-dominating-def neg-as **by** *auto*
have *is-feasible*: *feasible* $X'\ Y'$
using *xprime-pareto* **by** *blast*
have *xprime-leq-y*: $\forall\, i \in agents.\ (Price \cdot (X'\ i) \geq$
$(Price \cdot \mathcal{E}[i]) + (\sum j{\in}(firms).\ \Theta[i,j] *_R (Price \cdot \mathcal{Y}\ j)))$
proof
fix i
assume *as*: $i \in agents$
have *xprime-cons*: $X'\ i \in consumption\text{-}set$
using *feasible-private-ownershipD as is-feasible* **by** *blast*
have *x-leq-xprime*: $U[i]\ (X'\ i) \geq U[i]\ (\mathcal{X}\ i)$
using ‹$i \in agents$› *xprime-pareto* **by** *blast*
have *lns-pref*: *local-nonsatiation consumption-set* $Pr[i]$
using *as assms* **by** *blast*
hence *xprime-ge-x*: $Price \cdot (X'\ i) \geq Price \cdot (\mathcal{X}\ i)$
using *x-leq-xprime xprime-cons as assms utility-ge-price-ge* **by** *blast*
then show $Price \cdot (X'\ i) \geq (Price \cdot \mathcal{E}[i]) + (\sum j{\in}(firms).\ \Theta[i,j] *_R (Price \cdot$
$\mathcal{Y}\ j))$
using *xprime-ge-x* ‹$i \in agents$› *lns-pref assms x-equil-x-ext-budget* **by** *fastforce*
qed
have *ex-greater-value* : $\exists\, i \in agents.\ Price \cdot (X'\ i) > Price \cdot (\mathcal{X}\ i)$
proof(*rule ccontr*)
assume *cpos* : $\neg(\exists\, i \in agents.\ Price \cdot (X'\ i) > Price \cdot (\mathcal{X}\ i))$
obtain i **where**
obt-witness : $i \in agents\ (U[i])\ (X'\ i) > U[i]\ (\mathcal{X}\ i)$
using *xprime-pareto* **by** *blast*
show *False*
by (*metis all-prefered-are-more-expensive assms*(*3*) *cpos*
feasible-private-ownershipD(*2*) *inner-commute xprime-pareto*)
qed
have *dom-g* : $Price \cdot (\sum i{\in}agents.\ X'\ i) > Price \cdot (\sum i{\in}agents.\ (\mathcal{X}\ i))$ (**is** - >
- $\cdot$ *?x-sum*)
proof−
have $(\sum i{\in}agents.\ Price \cdot X'\ i) > (\sum i{\in}agents.\ Price \cdot (\mathcal{X}\ i))$
by (*metis* (*mono-tags*, *lifting*) *xprime-leq-y assms*(*1*,*3*) *ex-greater-value*
finite-nonepty-agents sum-strict-mono-ex1 x-equil-x-ext-budget)
thus $Price \cdot (\sum i{\in}agents.\ X'\ i) > Price \cdot$ *?x-sum*
by (*simp add*: *inner-sum-right*)
qed
let *?y-sum* = $(\sum j{\in}firms.\ \mathcal{Y}\ j)$
have *equili-walras-law*: $Price \cdot$ *?x-sum* =
$(\sum i{\in}agents.\ Price \cdot \mathcal{E}[i] + (\sum j{\in}firms.\ \Theta[i,j] *_R (Price \cdot \mathcal{Y}\ j)))$ (**is** - = *?ws*)
proof−
have $\forall\, i{\in}agents.\ Price \cdot \mathcal{X}\ i = Price \cdot \mathcal{E}[i] + (\sum j{\in}firms.\ \Theta[i,j] *_R (Price \cdot$
$\mathcal{Y}\ j))$
by (*metis* (*no-types*, *lifting*) *assms*(*1*,*3*) *x-equil-x-ext-budget*)
then show *?thesis*

by (*simp add*: *inner-sum-right*)
qed
also have *remove-firm-pct*: ... $=$ *Price* $\cdot$ ($\sum$ *i*$\in$*agents*. $\mathcal{E}[i]$) $+$ (*Price* $\cdot$ *?y-sum*)
proof$-$
have *equals-inner-price*:*0* $=$ *Price* $\cdot$ (*?x-sum* $-$ (($\sum$ *i*$\in$*agents*. $\mathcal{E}$ *i*) $+$ *?y-sum*))
by (*metis* (*no-types*) *diff-diff-add assms*(*1*,*3*) *walras-law-in-compeq*)
have *Price* $\cdot$ *?x-sum* $=$ *Price* $\cdot$ (($\sum$ *i*$\in$*agents*. $\mathcal{E}$ *i*) $+$ *?y-sum*)
by (*metis* (*no-types*) *equals-inner-price inner-diff-right right-minus-eq*)
then show *?thesis*
by (*simp add*: *equili-walras-law inner-right-distrib*)
qed
have *xp-l-yp*: ($\sum$ *i*$\in$*agents*. X' *i*) $\leq$ ($\sum$ *i*$\in$*agents*. $\mathcal{E}[i]$) $+$ ($\sum$ *f*$\in$*firms*. Y' *f*)
using *feasible-private-ownership-def is-feasible* **by** *blast*
hence *yprime-sgr-y*: *Price* $\cdot$ ($\sum$ *i*$\in$*agents*. $\mathcal{E}[i]$) $+$ *Price* $\cdot$ ($\sum$ *f*$\in$*firms*. Y' *f*) $>$ *?ws*
proof $-$
have *Price* $\cdot$ ($\sum$ *i*$\in$*agents*. X' *i*) $\leq$ *Price* $\cdot$ (($\sum$ *i*$\in$*agents*. $\mathcal{E}[i]$) $+$ ($\sum$ *j*$\in$*firms*. Y' *j*))
by (*metis xp-l-yp atLeastAtMost-iff inner-commute interval-inner-leI*(*2*) *less-imp-le order-refl assms*(*2*))
hence *?ws* $<$ *Price* $\cdot$ (($\sum$ *i*$\in$*agents*. $\mathcal{E}$ *i*) $+$ ($\sum$ *j*$\in$*firms*. Y' *j*))
using *dom-g equili-walras-law* **by** *linarith*
then show *?thesis*
by (*simp add*: *inner-right-distrib*)
qed
have *Y-is-optimum*: $\forall$ *j*$\in$*firms*. $\forall$ *y* $\in$ *production-sets j*. *Price* $\cdot$ $\mathcal{Y}$ *j* $\geq$ *Price* $\cdot$ *y*
using *assms prof-max-ge-all-in-pset* **by** *blast*
have *yprime-in-prod-set*: $\forall$ *j* $\in$ *firms*. Y' *j* $\in$ *production-sets j*
using *feasible-private-ownershipD xprime-pareto* **by** *fastforce*
hence $\forall$ *j* $\in$ *firms*. $\forall$ *y* $\in$ *production-sets j*. *Price* $\cdot$ $\mathcal{Y}$ *j* $\geq$ *Price* $\cdot$ *y*
using *Y-is-optimum* **by** *blast*
hence *Y-ge-yprime*: $\forall$ *j* $\in$ *firms*. *Price* $\cdot$ $\mathcal{Y}$ *j* $\geq$ *Price* $\cdot$ Y' *j*
using *yprime-in-prod-set* **by** *blast*
hence *yprime-p-leq-Y*: *Price* $\cdot$ ($\sum$ *f*$\in$*firms*. Y' *f*) $\leq$ *Price* $\cdot$ *?y-sum*
by (*simp add*: *Y-ge-yprime inner-sum-right sum-mono*)
then show *False*
using *remove-firm-pct yprime-sgr-y* **by** *linarith*
qed

Equilibrium cannot be Pareto dominated.

lemma *equilibria-dom-eachother*:
assumes $\bigwedge$*i*. *i* $\in$ *agents* $\Longrightarrow$ *local-nonsatiation consumption-set Pr*[*i*]
and *Price* $>$ *0*
assumes *equil*: *competitive-equilibrium Price* $\mathcal{X}$ $\mathcal{Y}$
shows $\nexists$ X' Y'. *competitive-equilibrium P* X' Y' $\wedge$ X' $\succ$*Pareto* $\mathcal{X}$
proof $-$
have *pareto-optimal* $\mathcal{X}$ $\mathcal{Y}$
by (*meson equil first-welfare-theorem-priv-own assms*)
hence $\nexists$ X' Y'. *feasible* X' Y' $\wedge$ X' $\succ$*Pareto* $\mathcal{X}$

using *pareto-optimal-def* **by** *blast*
thus *?thesis*
by *auto*
qed

Using monotonicity instead of local non-satiation proves the First Welfare Theorem.

corollary *first-welfare-thm-monotone*:
assumes $\forall M \in carrier.\ (\forall x > M.\ x \in carrier)$
assumes $\bigwedge i.\ i \in agents \Longrightarrow monotone\text{-}preference\ consumption\text{-}set\ Pr[i]$
and $Price > 0$
assumes *competitive-equilibrium Price* $\mathcal{X}$ $\mathcal{Y}$
shows *pareto-optimal* $\mathcal{X}$ $\mathcal{Y}$
by (*meson arrow-debreu-consum-set-def assms cons-set-props first-welfare-theorem-priv-own unbounded-above-mono-imp-lns*)

end

end

end

10 Related work

[2]

References

[1] K. J. Arrow, A. Sen, and K. Suzumura. *Handbook of Social Choice and Welfare*, volume 2. Elsevier, 2010.

[2] S. Tadelis. *Game Theory: An Introduction.* Princeton University Press, 2013.